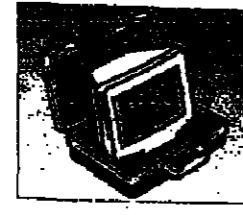


FINANCIAL TIMES

World Business Newspaper <http://www.FT.com>

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Pollock retrospective

Much more than an artist
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Survey: Belgium
Towards a looser federal state
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WORLD NEWS

Britain and Germany warn Saddam over weapons inspections

Western governments stepped up pressure on Iraqi president Saddam Hussein to resume co-operation with UN weapons inspectors. Britain and Germany called on Iraq to comply with UN resolutions on disarmament, and London said it would support the use of force. Page 4; Oil prices rise, Page 30

Delay threat to Russian strategy Russia's parliamentary leaders welcomed the broad thrust of the government's anti-crisis strategy but suggested amendments which could further delay its implementation. Page 3; Editorial Comment, Page 17

Third Pinochet warrant

International pressure for former Chilean president General Augusto Pinochet to be prosecuted increased when a French judge joined authorities in Spain and Switzerland by issuing an arrest warrant. Page 8

Taiwan reviews China policy

Taiwan's cabinet met to review its policy towards China in the wake of the resumption of high-level contacts with Beijing. However it said its attitude towards the Communist mainland had not changed. Page 6

Israel defiant on settlements Israeli prime minister Benjamin Netanyahu said he would not stop expanding Jewish settlements even though the US believes it could hinder progress in implementing the interim peace accord. Page 4

Kosovo crisis talks US mediator Chris Hill returned to Belgrade for more talks on the Kosovo crisis as a target date for reaching a deal on restoring autonomy to the Serbian province passed. Page 2

Poland picks British advisers Poland has chosen the UK to fill a key advisory portfolio as part of a European Union aid programme helping the country to prepare a strategy ahead of EU membership. Page 3

German slowdown forecast German chambers of commerce forecast that economic growth would slow to about 2.5 per cent in 1998 from around 3 per cent this year. Page 2

French bank rescue bill French taxpayers could end up footing a FF100bn (\$18bn) bill for rescuing Crédit Lyonnais, the troubled bank due to be privatised next year. Page 2

EU beef ban vote European Union farm diplomats are expected to vote tomorrow on ending a 30-month ban on British beef exports. Page 10

China opens shipping market China plans to award two comprehensive shipping licences to European companies after a year of EU lobbying. Page 9

Left loses out in Macedonia A centre-right coalition looks set to take power in Macedonia after 53 years of leftist rule.

FTT Monthly Review
Because of tomorrow's publication of the UK Pre-Budget report, the FT Review of Information Technology will now appear on Thursday

BUSINESS NEWS

Dresdner Bank slides into loss in third quarter

The string of poor results from German banks lengthened yesterday when Dresdner Bank reported a third-quarter operating loss of DM56.8m (\$34.5m), the first German bank to fall into the red because of recent upheaval in emerging markets. Page 19

Sun Microsystems is facing an industry revolt against its control of the Java computer language, as 13 companies announced they would start setting their own standards for creating Java programs. Page 19; Microsoft case, Page 8

Citigroup, created from Citicorp, the US bank, and Travellers Group, the financial services group, saw its share price fall 3 per cent amid growing concern about the implementation of the merger. Page 19; Lex, Page 18; Observer, Page 17

Adidas-Salomon, the world's second biggest sporting goods group, reported a DM271m (\$165m) loss in its first nine months, triggering an abrupt drop in its share price. Page 19

The London International Financial Futures and Options Exchange unveiled cost-cuts to restore its competitiveness with Eurex, the leading European exchange. Page 18; See Lex

Astra announced a 14 per cent drop in third-quarter profits as the Swedish pharmaceuticals group incurred sharply higher costs following the restructuring of its US joint venture with Merck. Page 20

Fila, the troubled Italian sportswear company listed in New York, has turned to Ferrari, Italy's sports car manufacturer, to help revive its flagging fortunes and share price. Page 20

Long-Term Credit Bank of Japan, the ailing group due to be nationalised, has been criticised for secretly paying money to its affiliates before it applied for government support. Page 21

Paul Anderson, new chief executive of Broken Hill Proprietary, Australia's largest resources group, said his priorities would be to restore shareholder value and overcome a "crisis of confidence". Page 21; Observer, Page 17

Deutsche Telekom chief executive Ron Sommer warned that an escalating price war will make it much harder to produce "the results that our shareholders expect". Page 20

Cloose Brothers Group, the UK investment bank, bought a majority stake in Freyberg-Hambros, a Frankfurt-based corporate finance house. Page 24

Lex on Citigroup Can this merger work?

Page 18



WORLD MARKETS

STOCK MARKET INDEXES					
New York: Industrial	3,725.48	(+133.38)			
New York: Inv. Inv.	4,781.16	(+25.11)			
MASSMO Composite	1,785.50	(+25.11)			
Europe and Far East	3,560.60	(+46.67)			
CAO40	4,761.15	(+90.03)			
DAX	5,525.15	(+87.17)			
FTSE 100	11,952.75	(+38.24)			
MAIN	5,625%				
US: LEHIGHPORT RATES	5.625%				
London: Fins. Inv.	4.40%				
London: Bnk. Inv.	1.04%				
Yield	5.230%				
OTHER RATES					
UK: 3 mos. Interbank	7.1%				
UK: 10 yr. Bond	12.15				
France: 3 mos. CHAT	12.65				
France: 10 yr. Bond	10.40				
Germany: 10 yr. Bond	10.64				
Japan: 10 yr. JGB	11.08				
MONT'S SEA: 30 yrs. Argus	51.31	(11.93)			

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TUESDAY NOVEMBER 3 1998

Pollock retrospective
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European buy-outs
Big money with nowhere to go
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Double vision: Gerhard Schröder addressing British industrialists. Reuters

Central banks hit at rate cut calls

Trichet warns political interference could upset markets

By David Sackin in London, Tony Barber in Frankfurt and Robert Graham in Paris

pean Central Bank could be forced to react with interest rate increases."

Gerhard Schröder, German chancellor, yesterday toned down his earlier warning that central banks should accept their responsibility for promoting growth.

He merely called for an open debate about the level of interest rates.

Mr Schröder was speaking after talks with Tony Blair, the British prime minister, whose government has also come under fire for appearing to pressure the Bank of England to reduce rates.

Mr Schröder said: "In Germany there is a discussion of how high or low interest rates should be. This (discussion) needs to be open without anyone feeling embarrassed or that their toes have been trod on. Debate is not decision-making."

Jürgen Stark, the Bundesbank deputy vice-president, also suggested that rates in the future euro zone might have to rise if governments failed to control their budget deficits.

"Since the decision on the start of monetary union, efforts to bring down deficits have slackened," said Mr Stark. "Excessive deficits are damaging. The Euro-

pean Central Bank could be forced to react with interest rate increases."

Mr Schröder yesterday made clear that he would prefer that the issue is thrashed out in private when his new finance minister, Oskar Lafontaine, attends a meeting of the Bundesbank later this week.

Mr Lafontaine yesterday dismissed any intent to attack the German central bank.

Meanwhile, the UK government came under strong pressure

from business leaders and European allies to speed up moves to join the single currency, as it emerged that the Treasury's outline national changeover plan envisages a transition period that could last until 2005.

Gordon Brown, UK chancellor, announced that the changeover plan will be published in January, but the Confederation of British Industry called on the government to set a target date.

Both Mr Schröder and Jose María Aznar, the Spanish prime minister, expressed support at the CBI conference in Birmingham for greater British engagement in Europe.

• Mr Blair and Mr Schröder agreed to upgrade Anglo-German contacts, setting up a joint task force to study issues such as welfare reform and innovation.

Peter Mandelson, trade secretary, and Bodo Hombach, head of the chancellor's office, will chair the committee which will reaffirm the governments' commitment to "new centre politics".

EIB, Page 3
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Sense and sensibility, Page 17
Editorial Comment, Page 17
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LEWINSKY SCANDAL APPEARS NOT TO HAVE DONE THE SERIOUS ELECTORAL DAMAGE FOR WHICH CLINTON'S OPPONENTS HAD HOPE

Democrats narrow gap on Republicans

By Mark Sennett in Washington

US Democrats have significantly narrowed the gap with the Republicans in the run-up to today's Congressional elections - casting Republican hopes that the Monica Lewinsky scandal would seriously damage President Bill Clinton's party.

Following two weeks of frantic campaigning, a string of last-minute voter surveys found key races evenly balanced. At least six Senate races and nearly a dozen House seats are regarded as too close to call, with the key for either side expected to be voter turnout.

Although two separate polls at the weekend gave the Democrats a slight overall edge nationally, - a core Democratic constituency

conservative Republicans are still expected to vote in larger numbers because of their disgust at Mr Clinton over his affair with Ms Lewinsky, a former White House intern.

A poll by the Pew Research Center published in the Washington Post yesterday found that 46 per cent of likely voters said they would support a Democrat for the House, while 44 per cent said they would support a Republican. Two weeks ago, 48 per cent of likely voters favoured the Republicans, while 43 per cent favoured Democrats.

Republican strategists were yesterday playing down their chances, with most now predicting only a slightly increased majority in both houses.

As recently as last month, party leaders had been forecasting an overwhelming victory. However, a string of recent policy successes by Mr Clinton, public

scandal and several strong candidates by individual Democratic candidates Democratic have helped the Democratic party shore up its support.

"The Clintons have both done a very good job in the past month," said Carolyn Bowman, a political analyst with the American Enterprise Institute.

Republican strategists were yesterday working on Middle East peace and the economy while Hillary Clinton has helped Democrats out in key races," she said.

Overall, 34 Senate seats and 36 governorships are up for election, in addition to all 435 seats of the House of Representatives. The most closely watched races are in the Senate. The Republicans

have an outside chance of gaining the five seats necessary to give them the 60 votes needed to overcome legislative filibusters.

Solid Republican gains could also encourage the party to move forward with impeachment proceedings against Mr Clinton. However, the White House is hoping that a strong Democratic showing will make Congress more likely to agree to a punishment short of impeachment, most likely some form of censure.

Republicans are expected to add to their 32 state governorships, but Democrats seem likely to win the single biggest prize - the governorship of California.

At last, a change

from all that controversial 20th century art.

Controversial 19th century art.

From 15th October you can peacefully enjoy John Singer Sargent's 'Madame X' at the Tate Gallery - which is rather more than you could at its original exhibition. Sargent's painting of the beautiful and notorious Madame Gautreau was the scandal of its day. Its stark simplicity and eroticism shocked the art world. The model was in tears, her family disgraced and the press coverage led Sargent to leave Paris for London - where he continued to innovate and astonish.

Which is why we are delighted to sponsor this exhibition. Because what excited Sargent about his work is what excites us about our own. The search for the best, most original solution. A willingness to challenge convention. And the belief that anything is possible.

John Singer Sargent at the Tate Gallery, London, 15th October to 15th January 1999. Information: 0181 881 8000.

MORGAN STANLEY DEAN WITTER

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WORLD NEWS

EUROPE

Credit Lyonnais rescue costs soaring

By Samer Iskander in Paris

Rescuing Crédit Lyonnais, the troubled bank due to be privatised next year, could cost French taxpayers well over FF100bn (\$18bn), it emerged yesterday.

The estimate, the first clear indication of the eventual cost of the bail-out since the bank's troubles became public in 1993, was made possible yesterday when Jean Peyrelade, its chairman, valued Crédit Lyonnais at FF35bn-FF40bn. Of that, the state could hope to

recover FF25bn-FF30bn. In May, the European Commission cleared a government-backed rescue package estimated at FF120bn-FF150bn. But according to some Commission calculations, the amount could be as high as FF190bn.

The final toll for the bank's reckless expansion in the late 1980s and early 1990s has grown steadily ever since its troubles came to light. As recently as 1995, after a "bad bank" was created to take over the management and disposal of

the rescue, will include the sum of up to one-third of Crédit Lyonnais to a group of long-term institutional shareholders.

In a radio interview, Mr Peyrelade also said: "We do not wish to have among our shareholders people who are direct competitors." The statement is bound to upset Karel Van Miert, the European competition commissioner. Yesterday the French finance ministry took his part, saying that the privatisation of Crédit Lyonnais would be "carried out in an

open, transparent and non-discriminatory manner".

Commenting on the possibility that Banque Nationale de Paris and Société Générale, France's largest listed banks, might want to invest in Crédit Lyonnais, Mr Peyrelade said: "I want neither one nor the other."

He said the group of core shareholders had to consist of "people who have helped us in our difficult period". These included Paribas, the wholesale bank whose consumer-oriented products are distributed by Crédit Lyonnais.

'Cautious optimism' in Germany

By Peter Norman in Bonn

The German chambers of industry and commerce (DIHT) yesterday forecast that economic growth in 1999 would slow to about 2.5 per cent from around 3 per cent this year, but warned that the outlook could worsen if business reacted negatively to the policies of the new Social Democratic-Green coalition in Bonn.

Franz Schöser, the DIHT's managing director, said the chambers' autumn survey of 25,000 businesses in manufacturing, construction, the retail and wholesale trades and other services showed "cautious optimism" about the future.

While exporters expected a "marked slowing" of business, the survey pointed to a gradual strengthening of domestic demand, with trading companies more optimistic and the building sector shedding some of its gloom. Business investment is expected to grow in 1999, but more slowly than expected at mid-year.

The survey was conducted before the September 27 election victory of Chancellor Gerhard Schröder and the emergence of a red-green coalition in Bonn. But a supplementary poll after the election showed the "great majority" of companies saw no short-term reason to revise their plans.

Businesses in western Germany were slightly more bullish than those in the east.

Macedonia's voters decide to trust a 'bandit' in a suit

The next government coalition will include the heirs of a widely feared revolutionary group, writes Kerin Hope in Skopje

Jubcho Georgievski, a 32-year-old poet and leader of the Internal Macedonian Revolutionary Organisation (VMRO), wears a suit and wants to talk about joining the European Union. Only the beard - a carefully trimmed affair traditional for VMRO's komitas (brigands) - hints at his party's past as one of the world's first modern-style terrorist organisations.

VMRO is now part of a pro-market coalition, together with the Democratic Alternative, which won 58-59 of 120 seats in Macedonia's elections last Sunday, pushing out the ruling Socialist Democrats. The "bandits", however, have come a long way since the 1920s.

For people in the southern Balkans, VMRO is an acronym redolent of violence. Between the two world wars, VMRO's komitas carried out political assassinations, terrorised villagers and exacted tribute on the ground of fighting for an independent Macedonia.

Many Macedonians can still recall VMRO's mass killings and the confiscation of livestock and crops. "My grandfather travelled across the region dealing in tobacco and wheat. He paid more gold sovereigns to VMRO in protection money than taxes," said Ljupcho

Kosovar, an engineer.

Dismanded under communism, VMRO went underground. But when Macedonia declared independence from the collapsing Yugoslav federation in 1992, it reappeared as VMRO-Democratic Party for Macedonian National Unity, with an anti-Serbian nationalist platform.

VMRO-DPMNE revived the komitas' dream of uniting western Bulgaria and northern Greece in a Greater Macedonia. But voters were then more concerned about Macedonia's drastic economic and precarious political stability.

"History makes people sympathetic to VMRO," said Zoran Antonovski, a driver. "But I was afraid to vote for them, because I thought they'd provoke a war with one of our neighbours."

Seven years later, however, VMRO has succeeded in persuading voters that it is a party of peace. As a result it won by far the largest share of the vote on Sunday, with 46-47 seats against 29 for the ex-communist Social Democrats, and 12 for VMRO's allies, the Democratic Alternative (DA).

This transformation from nationalist pressure group to centre-right political party owes much to Vasil Tupurkovski, US-educated international lawyer who founded



Tupurkovski (left) celebrates the coalition's election victory with Georgievski, the VMRO leader AP

the DA earlier this year. His political skills and popularity with young voters gave a decisive boost to VMRO's credibility.

"We ran a joint campaign. We helped VMRO modernise so they can come to power. They give us the weight of a big party."

Mr Tupurkovski worked especially hard to persuade VMRO to abandon its traditional hostility towards Macedonia's large Albanian minority.

The conflict in Serbia's Albanian-populated province of Kosovo, next-door to Macedonia, has increased tensions between Slavs and Albanians, who form some 23 percent of the population.

With Mr Tupurkovski as intermediary, the VMRO-DA coalition is negotiating with the Democratic Party of Albanians, a radical group which used to promote separatism and won 11 parliamentary seats on Sunday. Without support from the Albanians, VMRO-DA would

find it hard to govern.

Mr Tupurkovski also helped VMRO underline its break with the past by focusing its election campaign on Macedonia's economic prospects. One campaign poster showed a ripe tomato, labelled with the party symbol of a lion and a supermarket barcode. Another featured an aluminium drinks can with the VMRO lion as brand label.

"We're for change, not the sort that frightens people, but to create jobs and opportunities to build small businesses," Mr Georgievski said. "We are for a stable Macedonia which can grow closer to its neighbours."

Although Macedonia has made progress on reforms agreed with the International Monetary Fund and economic growth has turned positive, the official unemployment rate of 30 per cent is the highest in eastern Europe. Small businesses struggle to survive because they lack access to bank loans. Many families have turned to subsistence farm-

ing to make ends meet.

"Macedonia should become a high-quality agricultural producer and food processor supplying markets abroad. The way to beat unemployment is to encourage development of family-sized agri-business units," Mr Tupurkovski. He has pledged to bring Srb in for investment, with assistance from ethnic Macedonians in the US and Australia who retain their parents' sympathy for VMRO. Boris Stojanov, an accountant who recently took over as VMRO's economic policymaker, said the lack of transparency in Macedonia's privatisation programme and the absence of investment incentives for foreigners were stronger deterrents than the risks of its position in the turbulent Balkans.

"There are issues of land ownership, tax arrangements and shareholding structures in state enterprises to be settled before we can compete for big investment in this region," he said.

Two faults appeared in quick succession in the rocket's computer and caused the failure of Zenit's regulatory system and the crash of the booster," the Zenit's design bureau, NPO Yuzhnoye, said. "The faults had a random character and were not a consequence of design or construction defects, or of incorrect operation."

A Ukrainian security official said last month the crash, which destroyed 12 communication satellites owned by the Globalstar telecoms consortium could jeopardise the Globalstar contract. Globalstar had previously planned to launch 36 satellites with the Zenit booster.

Ukraine's Space Agency said it had detained 23 militant Islamists who planned to crash an aircraft packed with explosives on to the mausoleum of Mustafa Kemal Ataturk, the founder of the secular state.

Erol Cakir, governor of Istanbul, told reporters the suicide attack had been planned to coincide with festivities last Thursday marking the 75th anniversary of the republic. A second operation, to seize an important Istanbul mosque and "fight to the death", had been planned for the following day.

The KLA itself is a shadowy organisation with no clear command structure or political wing. To get the rebels on board, US diplomats are holding talks with local commanders in Kosovo and political representatives based in Geneva.

Reuters, Istanbul

SATELLITE CRASH

Ukrainians find rocket fault

A Russian-Ukrainian investigation commission has found that computer faults were responsible for the crash of a Ukrainian-made Zenit-2 rocket in September, the rocket's designers said yesterday.

"Two faults appeared in quick succession in the rocket's computer and caused the failure of Zenit's regulatory system and the crash of the booster," the Zenit's design bureau, NPO Yuzhnoye, said. "The faults had a random character and were not a consequence of design or construction defects, or of incorrect operation."

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Reuters, Istanbul

TURKISH ISLAMISTS HELD

Ataturk 'bomb plot' foiled

Turkey said yesterday it had detained 23 militant Islamists who planned to crash an aircraft packed with explosives on to the mausoleum of Mustafa Kemal Ataturk, the founder of the secular state.

Erol Cakir, governor of Istanbul, told reporters the suicide attack had been planned to coincide with festivities last Thursday marking the 75th anniversary of the republic. A second operation, to seize an important Istanbul mosque and "fight to the death", had been planned for the following day.

Police displayed sticks of dynamite, rifles, revolvers, ammunition and Islamic green flags at Mr Cakir's news conference. Mr Cakir said the militants had planned to tie a banner to the tail of the aircraft proclaiming "We Will Follow the Father" - a declaration of loyalty to Ataturk the founder of the secular state.

Reuters, Istanbul

KOSOVO CRISIS DESPITE TIMETABLE SLIPPAGE US ENVOY STILL HOPEFUL AGREEMENT IS NEARER

Mediators aim to heal Albanian splits

By Guy Dimmore in Belgrade

The US mediator, Chris Hill, returned to Belgrade yesterday for more talks on the crisis in Kosovo as a target date for reaching a deal on restoring autonomy to the Serbian province passed without agreement.

Diplomats said the US shuttle mission was making steady progress and they were not too worried about the slippage in the timetable set by the six-nation Contact Group last month. Mr Hill has said he is hopeful that the leaders of the Kosovo Albanians and the Serbian

authorities would reach agreement "within weeks".

Under the US-mediated deal, Kosovo's 2m or so people would be given substantial political autonomy for a three-year interim period. Elections would be held within nine months, an amnesty granted to many who took part in the conflict and a new police force composed to reflect Kosovo's ethnic composition.

But the fractious Kosovo Albanian leadership agrees that Kosovo's status within Serbia and the Yugoslav federation is not defined. Various groups, including the

pro-independence Kosovo Liberation Army (KLA), want a binding referendum at the end of the interim period giving the Albanian majority the right to self-determination.

Diplomats want to move the political track of the peace process forward while events on the ground permit. Only sporadic shooting has been reported over the past week, following a withdrawal of Serbian special police units. Most refugees living in the open hills have come down to the towns to find some kind of shelter.

But some police units remain and the KLA is quickly regrouping, receiving fresh supplies of weapons from Albania.

If the international community does not provide security... and the terrorists go wild then the area will become unstable and Serbia will have to start a new action of cleansing Kosovo of terrorists," Tomislav Nikolic, the Serbian deputy prime minister, warned.

Last week the US special envoy, Richard Holbrooke, said Serbia's position on autonomy was "far from what we think is desirable and necessary". But most diplomats agree the main task is to get the Kosovo Albanians to reach a common understanding among themselves. The KLA has warned Ibrahim Rugova, the elected "president" of the Kosovo Albanians, that he would be branded a traitor if he signed a deal without its blessing.

The KLA itself is a shadowy organisation with no clear command structure or political wing. To get the rebels on board, US diplomats are holding talks with local commanders in Kosovo and political representatives based in Geneva.

Reuters, Istanbul



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Parliamentary chiefs back Primakov's strategy

By John Thornhill in Moscow

Russia's parliamentary leaders yesterday welcomed the broad thrust of the government's anti-crisis strategy but suggested a string of amendments, which could further delay its implementation.

Their comments came in talks with Yevgeny Primakov, the prime minister, who unveiled the main elements - but few details - of his government's economic thinking on Saturday after almost two months of deliberation.

Mr Primakov yesterday repeated his calls for lowering tax rates, the imposition

of partial currency controls, support for the "real" economy, and the printing of a limited amount of money to pay off wage arrears.

"State intervention in economic life is essential to establish economic order,"

IMF may offer funds to Belarus from 'external shock' credit facility



A mission from the International Monetary Fund arrived in Belarus yesterday to assess the possibility of extending a loan under a little-used facility to help countries deal with external shocks. Reuters reports from Minsk.

"The goal of the mission is to assess the current

Mr Primakov said, promising to adopt many of the parliamentary leaders' suggestions.

Yegor Stroyev, the influential speaker of the upper house of parliament, said it was practically the first time

the main parliamentary factions and regional leaders had agreed on a course of action.

But he said the government's economic measures would require the adoption of at least 40 new laws. "We

agreed to review and adopt them diligently and very quickly," Mr Stroyev said.

Although Mr Primakov is steadily building domestic political support for his economic thinking, he has so far failed to convince foreign

investors that it amounts to a comprehensive programme.

The International Monetary Fund, which has extended billions of dollars of loans to Russia over the past four years, has already criticised the government's economic measures for failing to address the country's acute fiscal crisis.

Private foreign investors, who are still locked in talks with the Russian government over the restructuring of the domestic debt market, have also expressed scepticism about the government's intentions.

A research report from MFK Renaissance, a Moscow-based investment bank, said the Russian government had still not come up with a coherent plan to tackle the country's crisis, arguing Mr Primakov's government was "slowly going nowhere".

Victor Geraschenko, chairman of the central bank, said Russia was unlikely to extend a 90-day moratorium preventing Russian commercial entities from making foreign debt repayments. This implies that creditors will be allowed to press for repayment of their loans after November 18, threatening to push many Russian banks into bankruptcy.

Poland picks advisers for EU aid plan

By Christopher Bobinski in Warsaw

Poland has chosen Britain to fill a key advisory portfolio as part of the European Union's Phare aid programme, helping the country to prepare a regional development strategy ahead of membership in the EU.

The nomination is one in a series made by Warsaw under the EU's institution building programme, which is to cost one third of the country's Ecu 290m (£288m) Phare aid programme allocation for next year.

Poland has chosen German officials to advise on administration of the agricultural sector, ahead of Polish participation in the EU's Common Agricultural Policy (CAP).

The French will advise on bringing veterinary administration up to EU standards. The Germans will also be advising on implementing a system for registering farm animals.

France has also been handed the advisory portfolio for the environment ministry and will be helping to improve the efficiency of Poland's court system.

Thirteen of the 15 member states have bid to send advisers to Polish ministries. The regional development portfolio, however, was the subject of intense lobbying. It is considered strategically

Nominations are made by Warsaw under the EU's institution building programme

important because it could determine the model Poland follows in regional planning, abandoned after the collapse of the Communist system.

With British planners advising Warsaw, Poland's future regional development policies are likely to have a less centralised flavour than would have been the case if the portfolio had gone, for example, to France.

The British official responsible will be Stephen Woods from the unit in the Department of Trade and Industry which deals with structural funds in the UK. He will be posted to Poland's economics ministry for one year.

Other EU member states will also be involved in the preparation of a regional development strategy. Ireland and France will co-operate on rural development programmes, while Germany will advise on how to allocate funds for environmental projects. Finland will advise on transport policy.

In Brussels' view, the development plan the advisers will write should address Poland's "regional disparities". It would thus mirror the EU's cohesion strategy which currently pumps funds into less developed areas of the Union. The advisory work is to be accompanied by seminars and study visits to EU countries by Polish civil servants.

ECB: subservience or an identity of its own?

By Wolfgang Minchau in Frankfurt



One unresolved question about European economic and monetary union is just how much power the new European Central Bank will have.

Will the ECB develop its own identity, or will it become subservient to the participating national central banks?

This is a structural problem. The six members of the ECB's executive board will be confronted by 11 national governments, 11 national central banks, the European Commission and the European Parliament.

The ECB has only around 500 staff, while the national central banks employ over 60,000. The governors of the national central banks hold a majority of votes in the governing council: 11 votes against the ECB's six.

Francesco Giavazzi, a former top official at the Italian treasury, worried in a newspaper article last week that the national central banks wielded too much power under the new regime. He said the ECB was in danger of becoming an emasculated secretariat.

Some ECB insiders share these concerns. Hans Tietmeyer, president of the Bundesbank, stressed repeatedly that the European System of Central Banks (ESCB) - the network comprising the ECB and the national banks - would be far more decentralised than the German system.

The *Landeszentralbanken* are not nearly as powerful in Germany as the national

central banks will be in Europe.

Barry Eichengreen, a US economist, said Europe could learn from the mistakes of the Federal Reserve System, which was first established as a highly decentralised central banking system by the Federal Reserve Act in 1913. It descended into chaos.

The first 22 years of the Federal Reserve System's existence thus can be characterised as a trial-and-error process leading ultimately to the effective centralisation of authority, he wrote.

This period was characterised by continuous power struggles between the Washington-based Federal Reserve Board and the federal reserve banks, as well as between the reserve banks themselves - notably Chicago and New York.

This internecine conflict contributed to the bank fall-

ure that triggered the Great Depression of the early 1930s, because the Federal Reserve Board was unable to act as an effective lender of last resort.

The International Monetary Fund recently criticised the ESCB statutes for the same reason. Neither the ECB nor the ESCB have an explicit role as lender of last resort.

At the same time, the national central banks cannot unilaterally provide liquidity support, because they are not in a position to print money.

This vacuum leaves Europe vulnerable to a systemic financial crisis.

Alessandro Prati and Garry Schinasi, two IMF economists, have argued that the "current approach to crisis management in EMU risks delaying the prompt resolution of banking problems and other financial difficulties".

Both history and economic theory suggest that highly

decentralised banking arrangements, such as the ESCB, may not be stable.

The subsequent legal amendments to the 1913 Federal Reserve Act that created the present Federal Reserve also suggest that the Maastricht Treaty may not be the last word on Europe's central banking constitution.

* *Designing a central bank for Europe: a cautionary tale from the early years of the Federal Reserve System*, by Barry Eichengreen, pp 13-48 from the volume *Establishing a Central Bank: Issues in Europe and lessons from the US*. Centre for Economic Policy Research, 1992.

* *The ECB and the Stability of the Financial System*, by A. Prati and G. Schinasi, Conference paper delivered at Università Bocconi, Via Sarfatti 25, Milan, Italy.

See Editorial Comment

A new beginning for Slovakia as Meciar steps down

At stake are ties with other countries, after spats with neighbours and alienation from Nato and the EU, says Robert Anderson

When Vladimir Meciar conceded defeat after September's election he reproached Slovaks for their ingratitude, sang a folk song - "Farewell, I leave you. I never hurt, I never hurt any you" - and waved goodbye.

It was, the prime minister told viewers, "the end of the Slovak path of transformation", a path he had travelled, with two short interruptions, from the first elections after communism in 1990 through independence in 1993 to his official resignation last week.

But the new government is not counting on Mr Meciar's retirement. It knows that, unless it can keep together, solve deep political divisions and economic problems and bring home diplomatic success, Mr Meciar could rise once more from the political grave.

The challenge is a particularly daunting one for a government which uneasily combines left and right and is headed by a relatively inexperienced prime minister. At stake are Slovakia's relations with the rest of the world, after years in which Mr Meciar argued with the Czech Republic and Hungary and alienated Nato and the European Union.

To a great extent, it was the outpourings of Mr Meciar

that led to his downfall. His contempt for the opposition which hurt the country's relations with the west and contributed to its diplomatic isolation.

His government brushed aside checks by parliament, the president and the constitutional court, filled posts with placemen, privatised assets to supporters, attacked the media and set up parallel trade unions and local government associations it could control.

Largely as a result both the European Union and Nato disqualified Slovakia last year on political grounds from their first wave of potential entrants.

The new government says it will have greater respect for the division of powers and due procedure than did Mr Meciar.

Mikulas Dzurinda, the new premier, is confident that the immense international relief at Mr Meciar's departure will help him end the country's isolation quickly.

Mr Dzurinda is due to visit the European Commission this week in his first trip abroad since becoming prime minister. But the country will still have to move fast to catch up on its neighbours.

It is already too late to join the Czech Republic, Hungary and Poland in the first wave of Nato entrants. Slovakia hopes to be accepted into the Organisation for Economic Co-operation and Development and the European Union by the end of the year.

By contrast, the new government includes an ethnic Hungarian party, which should soothe relations with Hungary, which has made an issue of the treatment of the 800,000 Hungarian minority in Slovakia. However, problems are likely to persist over the Hungarian government's refusal to complete its section of a joint Slovak-Hungarian hydro-electric dam.

Relations with the Czech Republic are also likely to improve. Five years after the split of the Czechoslovak federation, the two countries may finally resolve a dispute over Czechoslovakian assets.

But all such hopes rest on the government staying in power long enough to make a difference - and it already faces several challenges.

Mr Dzurinda needs to bring the economy under control after five years in which annual growth averaged about 5 per cent but current account and budget deficits ballooned. He also needs to bolster the banking sector, which Standard and Poor's, the rating agency, says has become one of the world's most fragile because of the non-payment of debt.

Mr Dzurinda is hoping from whatever steps he needs to take will be limited. This means, promises Milan Farcic, the new education minister, "the coalition will last until it is clear Meciar will not return".

However, it is already divided over the wisdom of holding direct elections for the presidency next year because of the risk that Mr Meciar could win. But, in other respects it is the spectre of the former prime minister returning to office which holds the government together.

Similarly, Professor Dale argues, the German government's decision in 1987 to impose a 10 per cent witholding tax on domestic interest income led to massive sales of German government bonds by foreign investors, and it was forced into an embarrassing about-turn within four months.

The EU directive would ensure a minimum tax of 20 per cent was paid on income from bank accounts and securities held by EU residents.

London fights back on EU tax directive

By George Graham, Banking Editor

The City of London yesterday mounted a rear-guard action against European Commission proposals to harmonise the taxation of savings and investment.

The Corporation of London, the City's local government authority, released a study warning that the proposed EU directive would severely damage the European capital markets by driving the lightly regulated Euromarkets offshore.

The study, commissioned from Professor Richard Dale of the University of Southampton, argues that the imposition of withholding taxes on domestic interest income led to massive sales of German government bonds by foreign investors.

Judith Mayhew, chairman of the Corporation of London's policy and resources committee, retorted that withholding tax was "too important to horse-trade".

It is important that politicians and bureaucrats alike throughout Europe have a deeper understanding of the possible consequences of their actions.

Austria, which currently holds the EU presidency, and Germany, which will take over in January, are both keen to make progress on tax harmonisation, which they see as necessary to the efficient working of the single currency.

THE BANK OF NEW YORK

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INTERNATIONAL

Schröder and Blair in warning to Saddam

By Routh Khalaf in London

Western government yesterday stepped up pressure on Iraqi President Saddam Hussein to resume co-operation with United Nations weapons inspectors.

Britain and Germany called on Iraq to comply with UN resolutions on disarmament, and Britain warned it would support use of force against Baghdad.

Inspections of new sites have been halted since August, but Iraq on Saturday decided to bar weapons investigators from inspecting sites now subject to monitoring.

The system of verification and monitoring allows Unesco, the special commission charged with dismantling Iraq's weapons of mass destruction, to monitor 300 facilities - including plants, breweries and university laboratories - which can be considered of dual use as well as to track whether equipment is moved.

Iraq, however, has allowed the International Atomic Energy Agency to continue monitoring, allowing sensors and monitors installed in facilities to continue to operate. A UN team was allowed yesterday to visit a site to maintain surveillance equipment.

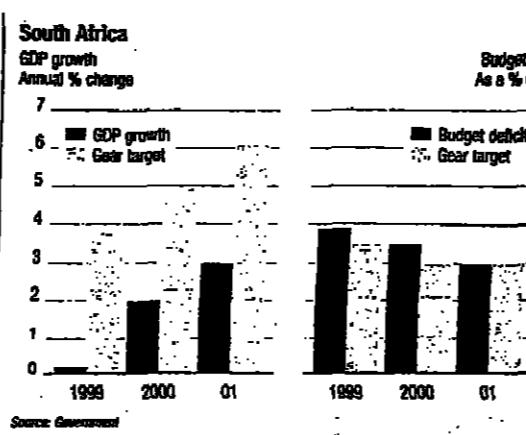
Mr Schröder said: "I must underline that it is not a matter of a conflict between the United States and Iraq. Iraq is violating decisions of the international community, decisions of the Security Council."

An official from Unesco said yesterday the Iraqi decision crippled inspectors' ability to uncover any proscribed activity in Iraq, since anything unusual detected by cameras could not be followed up with visits to sites to investigate.

Baghdad has demanded the lifting of eight-year-old sanctions and the removal of Richard Butler, the Australian diplomat, as head of Unesco.

Mr Butler said yesterday the latest crisis with Iraq was the "worse confrontation by Iraq with the Security Council that we've yet seen". Speaking on an American television show, Mr Butler said Iraq's demands for his sacking were simply "a diversion from their obligation to be disarmed".

Last month, UN officials said Iraq was close to rescinding its ban on inspections in return for the holding of a comprehensive review of sanctions. However, Iraqi officials have concluded since then that the type of comprehensive review to which the US would agree would not take them closer to their objective of lifting the sanctions.



Manuel: he promised to maintain job creation and social spending without abandoning sound and sustainable economic policies

S Africa cuts forecast for growth to 0.2%

By Victor Mallet
in Johannesburg

Trevor Manuel, South Africa's finance minister, yesterday sharply reduced his forecasts for economic growth over the next three years because of the recent turmoil in world markets.

He said the budget deficit would be slightly higher than expected this year and next, but he insisted on the need for continued fiscal discipline. "Since April, the global economy has been rocked again and again," he told parliament in Cape Town. "Inevitably, we have not been immune to these shocks."

Mr Manuel was announcing budget adjustments for the fiscal year to the end of March 1999 and issuing the government's latest medium-term budget policy statement.

Real gross domestic product growth would reach only 0.2 per cent in the current year, compared with the 3 per cent predicted at the time of the budget in March, he said. In the following two years, the economy was expected to grow 2 per cent and 3 per cent, instead of the 4 per cent and 5 per cent

previously forecast.

This year's budget deficit is now put at 3.9 per cent of GDP, compared with the 3.5 per cent target. Next year the deficit target will be 3.5 per cent instead of 3.0 per cent. But by the fiscal year ending in 2001 the government plans to hit the 3.0 per cent target envisaged in its two-year-old Growth, Employment and Redistribution programme, known as Gear.

Although South Africa is heavily dependent on commodity exports whose prices have been depressed by the financial crisis in Asia and elsewhere, Mr Manuel said the economy had weathered the turmoil better than many other emerging markets.

South Africa had been helped by its sound balance of payments, moderate foreign debts, strong financial system, investments in social development and coherent macroeconomic policies.

The country's financial markets have recently recovered some of their heavy mid-year losses. Yesterday the rand rose to R5.85 to the US dollar - its highest level for more than four months

Egypt
Shah

Climate change 'could add to African hunger'

By Vanessa Houlder in London

Climate change could put 18 per cent more of the population of Africa at risk of hunger by the 2050s than would otherwise be the case, scientists said yesterday.

An analysis of the impact of global warming over the next century suggests crop yields are likely to increase in countries at high and mid latitudes but decrease in lower latitudes. West Africa and tropical South America are likely to be worst affected.

The team of researchers from the UK, US, Spain and Austria carried out the study as part of a research programme into the effects of climate change commissioned by the UK government. They based their findings on a predicted 3 per cent warming of the climate over the next 100 years.

The report will be presented at the Buenos Aires climate change conference where governments yesterday began negotiations on "flexible mechanisms" for meeting greenhouse gas emissions targets agreed at Kyoto last December.

Overall, the researchers anticipate a shortfall of 90m tonnes of food by the 2050s, increasing the number of people at risk of hunger by 30m and raising the price of food by 17 per cent above the level it would otherwise have been.

Without climate change,

the researchers assume world cereal production would nearly double by 2050 to 3.5bn tonnes to match global food needs, in line with projections by the UN Food and Agricultural Organisation.

Related research published yesterday suggests tropical forests will die back in many areas of northern Brazil, while in other areas of the world, tropical grasslands will be transformed into desert or temperate grassland. These changes, mainly in Amazonia, Europe and North America, are likely to release carbon dioxide into the atmosphere after 2050.

The researchers, from the NERC Institute of Terrestrial Ecology in Edinburgh described this effect as "potentially very serious" because it could accelerate climate change.

Climate change would also increase the proportion of the world's population at risk of malaria. It could affect areas, such as the eastern highlands of Africa or the Andes region of south America, which are currently free of malaria and where there is little immunity to the disease.

The research findings also suggest climate change will exacerbate water shortages in some of the world's poorest countries. Rising sea levels could put an extra 200 million people a year at risk of flooding, with south and southeast Asia most vulnerable.

Israelis defiant on settlements

By Judy Dempsey in Jerusalem

Benjamin Netanyahu, Israeli prime minister, said yesterday he would not stop expanding Jewish settlements even though the US believes it could hinder progress in implementing the interim peace accord signed last month in Washington.

"We are angry about these statements by Netanyahu," said a US official. "They are not conducive to fostering confidence in the accord."

Mr Netanyahu, doing everything possible not to alienate the nationalist and religious parties in the fragile coalition - nor appear to be bowing to US pressure - said his government would continue "to allow the growth of the existing communities. That was our policy. That will remain our policy".

Palestinian officials insisted they had received verbal assurances from the US at the Wye Plantation talks that Israel would not build new or expand existing settlements in the West Bank or East Jerusalem. "The agreement itself also obligates both sides not to take unilateral measures," said Hassan Asfour, Palestinian negotiator.

Under the terms of the accord, which is to be implemented over the course of

three months, Israel next week will start handing over 14.2 per cent of land under its security to full Palestinian control and gradually pass to Palestinian civilian control 13 per cent of land held exclusively by Israel. The Palestinians will start implementing a security timetable.

Mr Netanyahu, however, said the peace deal would come into force only when the Knesset, or parliament, ratified it, although yesterday he told Yasser Arafat, president of the Palestinian Authority, he was committed to it.

The cabinet is due to discuss the accord today, and the Knesset next week.

The opposition Labour party has promised to provide the government with a "safety net" assuming the nationalist and religious parties vote against it.

Meanwhile, Mr Netanyahu is trying to placate the coalition's National Religious party, which represents the settlers and opposes the accord. It said it might vote against next year's budget, due for its first reading last night, if the government did not allocate it a further Shk70m (\$16.4m) for religious purposes. Mr Netanyahu scraped through the first reading... by one vote.

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WILL BE THE
MILESTONE FOR
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"WE ARE
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ASIA-PACIFIC

NATIONAL ALUMINIUM COMPANY GOVERNMENT UNDER PRESSURE TO PRIVATISE FURTHER 30%

Indian aluminium set for new sell-off

By Kumar Basu in Calcutta

National Aluminium Company, India's largest aluminium group, is set for further privatisation after the Disinvestment Commission told the government to sell 30 per cent of its holding in the group. The government sold a 12.85 per cent stake in 1994-5.

Bankers said the government was under pressure

from the International Monetary Fund to accelerate the privatisation programme, but that the need to restructure the group's capital meant it would be difficult to move in the year ending March 1999.

"Naico has a very large equity capital of Rs12.67bn (\$304m)," said S.N. Johri, chairman.

"Because of this, our earnings per share have

remained low even while our profits are high."

The dividend payout is large, but the rate of dividend is low. This is not doing our shares any good in the stock market," said C. Venkataramanan, director, said a plan was awaiting government approval.

"We already have accepted the suggestions of the government that the debts will mature in five years and not

eight years as we proposed and carry an interest of 12 per cent," he said.

Bankers said the proposal offered the government an "excellent bargain" as it would get a much higher return on the capital to be converted into debts than by way of dividend income.

According to analysts at HSBC Securities, the likely fall in Naico's output by nearly 50,000 tonnes in

1998-99

from the 203,000

tonnes produced last year

will pare net profits by 11

per cent to Rs1.875bn.

But as Naico returns to

normal production well

before the current year ends,

"profits next year should

jump 21 per cent to

Rs2.856bn," said HSBC.

Navin Suchandi, managing

director of Pressman

Finance, a stockbroker, said:

"The fundamentals of Naico

are so strong that the investor

interest will revive once

the capital restructuring pro-

gramme is announced. For

the government to get good

value for the shares it is to

sell, capital restructuring

should precede disinvest-

ment."

Mr Venkataramanan said

Naico became debt-free at

the beginning of last month

after paying off a loan of

Rs2bn.

AUSTRALIA ROW OVER GRANT TO MAVERICKS

Party funding spurs attacks on Hanson

By Stephen Wyatt in Sydney

Pauline Hanson's One Nation political party is under siege in Australia.

In the past few days John Howard, the prime minister, said the country was better off without One Nation members in the lower house, the House of Representatives.

In addition Tony Abbott, employment services minister, said One Nation members should take back control of their party and called its organisational structure undemocratic.

Meanwhile, within the party, there are moves to strip its three leaders – Pauline Hanson, David Oldfield and David Uttridge – of their powers.

This broad attack follows the payment of A\$2.3m (US\$1.7m) to One Nation last week in electoral funding from the Australian government. Any political party in Australia that gets more than 4 per cent of the formal first preference vote receives A\$1.62 per vote.

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One Nation inflamed a race debate when it polled 23 per cent of the vote in the Queensland state elections last June.

For One Nation, though, the A\$2.3m funding was a mixed blessing. The recipient of the funds was One Nation Limited, a company whose sole directors are Ms Hanson, Mr Oldfield and Mr Uttridge.

The grant triggered a sharp attack from the employment minister, Tony Abbott, a Liberal party mem-

ber. He said at the weekend that One Nation should not receive any funding as it was not a democratic political party in the ordinary sense.

The three people who ran One Nation were accountable to no one but themselves and how the A\$2.3m was spent was entirely up to those three people, he said.

He added that he would like to see One Nation members – who can only belong to the powerless Pauline Hanson's One Nation Members Inc – reclaim their party from the three leaders.

Now there are rumblings from within. Bev O'Regan, a failed One Nation Senate candidate in the state of New South Wales, has prepared a draft national constitution that aims to strip the powers of One Nation Ltd's three directors to control the party's finances and direction.

The party has also come under attack from the Liberal party and National party in Queensland.

None of the 11 One Nation members of the Queensland state parliament would be welcomed into the Liberal party if they want to quit One Nation, David Watson, Queensland Liberal leader, said last weekend.

At the Queensland Liberal party convention in Brisbane Mr Howard said: "I think in the long term Australian politics is better off for the fact that there is no representative of One Nation in the House of representatives."

One Nation is not dead. But if Helen Coonan, a Liberal Senator from New South Wales, is right about party members having a good chance of legally freezing the A\$2.3m, One Nation will certainly be a lot less alive.

NEWS DIGEST

THAI CONSUMER PRICES

Slowdown in inflation gathers pace in October

Thai consumer prices fell in October from the month before, as the slowdown in inflation gathered pace more quickly than expected. October prices fell 0.2 per cent compared with September, and were up just 5.8 per cent year on year.

The International Monetary Fund targeted Thai inflation to hit 9.2 per cent this year, but the Thai ministry of commerce said yesterday it expected inflation to be no more than 8.2 per cent, and that in December it could fall as low as 4.2 per cent year on year. Inflation peaked in June with a 10.7 per cent year-on-year increase.

Falling prices for food, a large component of Thailand's consumer price index, were the prime reason for October's decline, with a 0.7 per cent fall from the previous month.

Ted Berdacke, Bangkok

SOUTH KOREAN ECONOMY

Trade surplus narrows

South Korea's trade surplus narrowed in October from the previous month, according to data released yesterday, but government officials said they expected exports to recover in the coming months due to the rising yen against the dollar.

South Korea's trade surplus fell to a provisional \$3.18bn on a customs clearance basis in October, from a \$3.64bn surplus in September, the commerce ministry said.

The ministry attributed the sharp year-on-year export decline in October to technical factors – there were fewer business days in October this month due to the three-day Thanksgiving holiday and also monthly exports in October last year hit a record high.

The ministry noted instead that the monthly export volume continued to grow in October, after hitting this year's lowest level in August at \$9.8bn. In October last year, the country posted a trade deficit of \$120m on \$12.47bn in exports and \$12.59bn in imports, a ministry statement said. Reuters, Seoul

HONG KONG SMUGGLING

Pirate video discs seized

Hong Kong customs yesterday smashed a syndicate that smuggled pirated video discs into the territory from neighbouring Macao, the government said.

Customs officers arrested four people and seized more than 600,000 suspected pirated video compact discs (VCDs), worth about HK\$10m (\$US1.3m) in a raid in the New Territories, a government statement said. Customs have shut down 15 factories producing pirated video discs and have seized 68 production lines since September last year, the Customs and Excise department said.

Between January and September this year, customs seized 33m pirated video discs with a street value of HK\$588m, and arrested 1,259 people. Last year, customs seized 4.4m pirated video discs and arrested 1,538 people. Reuters, Hong Kong

INDIA-PAKISTAN RELATIONS

Delhi to free fishermen

India yesterday said it would release 148 Pakistani fishermen it is holding ahead of this week's talks on improving relations between the two rivals. However, the two countries also accused each other of firing across the military control line in the disputed region of Kashmir yesterday.

A Pakistan military source accused Indian troops of firing artillery on 12 villages in the Neelum Valley of Pakistan-controlled part of Kashmir, wounding at least seven civilians and four soldiers.

New Delhi's move reciprocated Islamabad's announcement last month that it was releasing all Indian fishermen and fishing boats held in Pakistan as "a gesture of goodwill and in view of humanitarian considerations".

The talks, which follow a round of discussions on peace and security and the disputed territory of Kashmir in Islamabad last month, are part of a resumption of dialogue that broke down a year ago. Reuters, New Delhi

INTERNATIONAL ECONOMIC INDICATORS: PRICES AND COMPETITIVENESS

Yearly figures are shown in index form with the common base year of 1985. The real exchange rate is an index throughout; other quarterly and monthly figures show the percentage change over the corresponding period in the previous year and are positive unless otherwise stated.

	UNITED STATES	JAPAN	GERMANY
	Consumer prices Producer prices Earnings	Consumer prices Producer prices Earnings	Consumer prices Producer prices Earnings
1987	105.8 100.7 79.4	76.1 101.2 92.5	101.1 95.0 107.0
1988	108.9 103.2 106.8	100.2 71.0 102.3	104.4 102.5 110.2
1989	115.2 108.5 109.3	104.9 74.9 105.1	104.2 98.3 105.5
1990	121.5 113.9 113.5	104.9 73.2 108.3	107.0 101.0 117.9
1991	126.5 118.3 117.3	108.4 74.1 111.9	110.9 103.4 125.3
1992	130.4 117.7 120.1	108.4 74.0 114.0	116.5 104.9 119.1
1993	133.8 122.0 122.0	108.4 73.9 115.5	125.5 108.0 115.3
1994	137.8 119.8 126.5	107.9 74.1 118.2	121.7 105.1 148.2
1995	141.7 122.2 129.7	105.7 68.7 115.8	125.1 102.6 121.2
1996	145.8 125.4 133.9	104.8 73.4 115.8	129.3 107.1 138.6
1997	149.2 125.0 138.1	103.7 76.1 117.4	131.5 108.2 130.1
4th qtr. 1997	1.9 -0.7 3.3	0.7 80.2 2.1	1.8 108.1 1.8
1st qtr. 1998	1.5 -1.6 3.0	1.4 82.1 2.1	1.1 108.1 1.0
2nd qtr. 1998	1.8 -0.8 2.8	1.3 83.4 0.8	-0.2 100.8 1.3
3rd qtr. 1998	1.6 -0.7 2.3	0.8 85.2 -0.1	-0.7 97.6 0.8
November	1.8 -0.7 3.4	0.7 79.7 2.0	1.9 107.4 1.2
December January 1998	1.7 -2.1 3.1	0.8 61.6 1.8	1.5 105.3 1.2
February	1.4 -1.5 3.1	0.8 62.4 2.0	1.3 105.5 1.2
March	1.4 -1.5 3.1	0.8 62.4 2.0	1.1 105.7 1.2
April	1.4 -0.3 2.9	0.9 62.7 0.7	1.2 103.7 1.2
May	1.7 -0.5 3.0	0.9 63.1 0.8	1.4 -0.1 110.0
June	1.7 -0.3 2.8	1.0 63.1 0.9	1.3 -0.1 104.4
July	1.7 -0.3 2.4	1.0 63.1 0.9	1.0 60.0 1.0
August	1.6 -0.8 2.4	0.9 62.1 1.0	0.9 -0.4 105.4
September	1.5 -0.9 2.4	0.8 64.4 0.9	0.8 -0.6 105.8
October	80.5	0.4	106.8
	FRANCE	ITALY	UNITED KINGDOM
	Consumer prices Producer prices Earnings	Consumer prices Producer prices Earnings	Consumer prices Producer prices Earnings
1987	105.8 98.0 107.4	103.0 104.7 107.5	107.7 104.9 115.3
1988	108.3 103.5 111.5	104.1 102.1 108.5	112.0 108.7 122.6
1989	115.5 107.7 121.5	108.5 102.9 114.7	110.7 108.5 114.0
1990	120.2 106.4 127.1	113.4 100.7 122.6	133.3 121.0 150.1
1991	123.1 105.3 123.8	115.8 104.2 147.7	141.2 127.5 162.4
1992	125.6 103.1 135.4	118.1 105.6 153.9	144.7 131.5 173.1

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TIMES TUESDAY NOVEMBER 3 1998

FRIDAY NOVEMBER 3 1998 ★
FINANCIAL TIMES TUESDAY NOVEMBER 3 1998 ★

NEWS DIGEST

CONSUMER PRICES

owdown in inflation others pace in October

INFLATION in the US in October fell to its slowest rate in 10 years, but the slowdown in world inflation is even sharper. The International Monetary Fund says inflation in 1998 will end at 2.2% compared with 3.2% last year. The IMF also expects inflation to fall to 2.7% next year and that inflation in the US will end at 2.5% next year. The US inflation rate has been falling since 1994, from 3.2% to 2.2%.

TH-KOREAN ECONOMY

US surplus narrows

THE US trade surplus narrowed in September, according to data released yesterday, and they expect it to narrow further due to the

IMF's latest analysis. The US surplus narrowed again in August, and in September, the Commerce Department estimates the change in October, to be final, to be smaller than expected. The report says foreign trade and exports have been growing rapidly, while imports have been rising more slowly.

HONG KONG

nto video discs seized

CHINESE customs officials seized 100,000 pirated video discs in Hong Kong last week. The discs were destined for the mainland. Chinese officials seized 100,000 pirated video discs in Hong Kong last week. The discs were destined for the mainland.

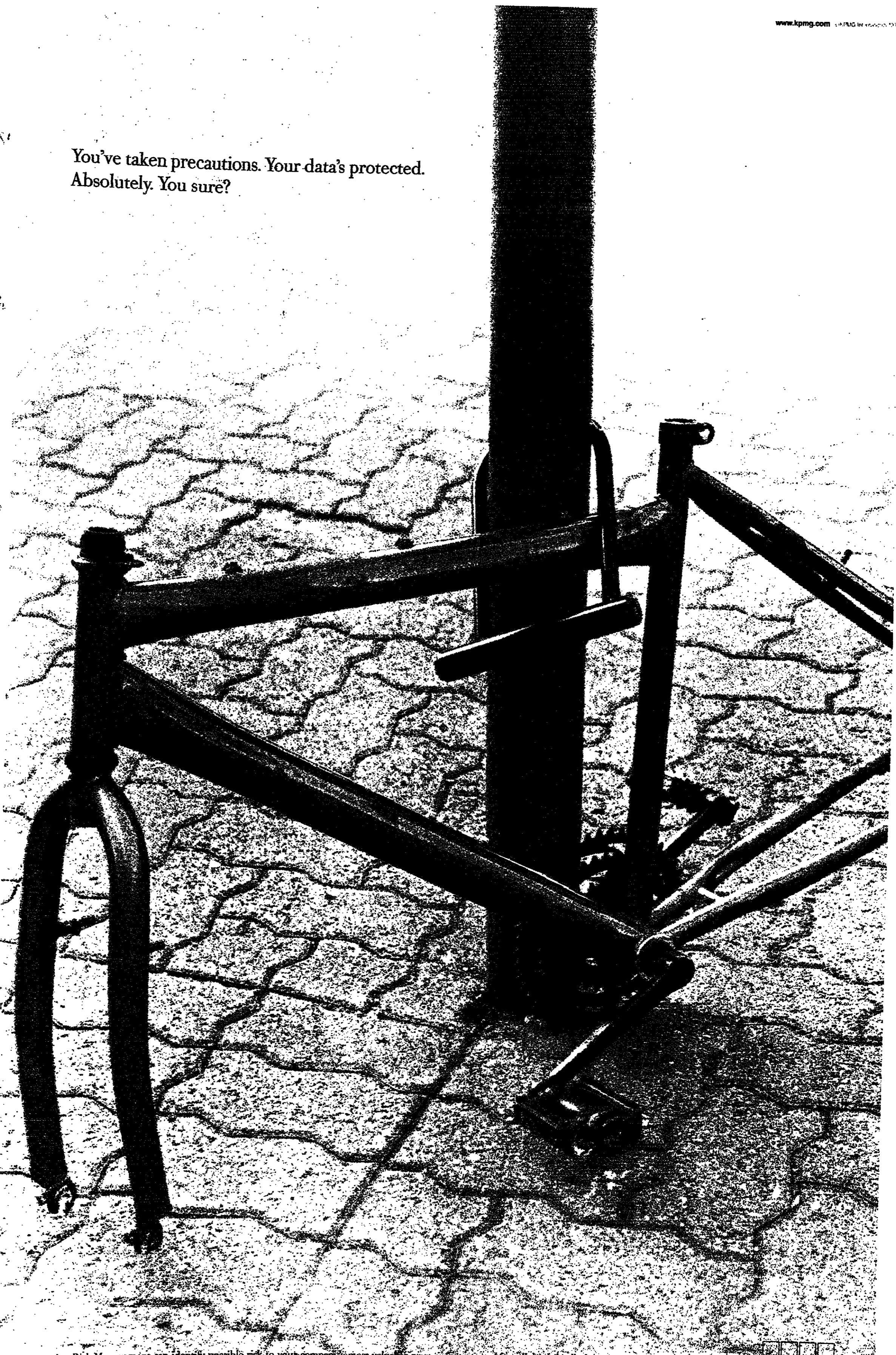
INTERNATIONAL RELATIONS

China fishermen

CHINESE fishermen have been accused of poaching in the South China Sea. The Chinese government has denied the accusations, saying the fishermen are only engaged in legal fishing activities.

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It's time for clarity.

THE AMERICAS

Brazil debt roll-over sparks fears

By Richard Waters in New York

Foreign banks and investment institutions continued to show little appetite yesterday for a formal restructuring of Brazil's foreign debts, despite a growing belief in financial markets that the official package now in preparation cannot succeed without a large degree of private sector help.

Brazilian officials have yet to approach the country's foreign bank creditors and investors officially to ask for their support. Unofficial soundings suggest Brazil hopes to win broad backing from foreign creditors to roll over existing commitments and extend new money.

"They would prefer to ask financial institutions to maintain or even increase their facilities in an informal way," according to one financial source. That would contrast with the sort of formal debt plan needed to prevent a default by South Korea earlier this year.

Brazilian officials are expected to ask directly for private sector support once a deal with the International Monetary Fund and the Group of Seven leading industrial nations is completed. That agreement, expected as early as this week, is expected to provide between \$30bn and \$50bn to bolster Brazil's external finances. Unofficial approaches are believed to have been made to leading

commercial and investment banks, but there seems little appetite among financial institutions to lend more. Even the large scale of the official financial package being discussed could fail to bolster the Brazilian currency if confidence does not return quickly to the financial markets, analysts say.

The country's foreign reserves have fallen from \$75bn to \$43bn since August, said Geoffrey Dennis, emerging markets strategist at Deutsche Bank Securities. "I think they're going to have real problems rolling over the foreign currency debt," he said. "The genie is out of the bottle - credit lines have been pulled, the banks are cutting back."

Complicating the picture could be a move by foreign banks to reduce their exposures early in the expectation they might, at some later stage, be required to put up more money in a Brazilian bail-out.

Still fresh in many banks' minds is the sequence of events in South Korea late last year, when an IMF deal failed to stem the outflow of foreign capital, leading eventually to an emergency rescue from private creditors.

However, for US banks, at least, heading off a crisis of confidence over Brazil is likely to be viewed with a greater sense of urgency even than that of South Korea.

US mid-terms – your guide for election night

The results of today's mid-term elections will be especially important. They could determine the fate of President Bill Clinton in the impeachment process that will get under way as early as next week, and they will also set the political stage for the 2000 presidential election. National politics played only a small part in the campaign, which has turned mainly on local issues. Republicans had been looking to make significant gains but in the last week Democrats seem to have closed the gap in many races.

Indiana (open)
Former governor Evan Bayh is clinging to victory in the race for retiring Sen. Don Hargan's seat.

Wisconsin
Sen Russ Feingold has been pushed surprisingly close by Republican Congressman Mark Neumann. Feingold, a sponsor of campaign finance reform legislation, has exercised voluntary restraint in his campaign spending. As a result his opponent has outspent him heavily.

Washington
Incumbent Patty Murray has struggled against independent-minded Linda Smith, but Sen Murray has won backing from big business and recently opened up a small lead.

Nevada
Sen Harry Reid has faced a tough challenge from Congressman John Ensign, and the race looks wide-open.

California
A month ago, Sen Barbara Boxer's close family proximity to the Clintons (she is Hillary's sister-in-law) looked as though it might cost her the seat. But the Clinton issue has not really registered and her opponent, Matt Fong, has faltered in recent weeks.

Arkansas (open)
President Clinton's home state could swing further to his opponents as Republican Fay Boozman closes in on Democrat Blanche Lincoln.

Illinois
The party's best hope to oust a sitting senator – Carol Moseley-Braun, who has been less than inspiring in her six years in the Senate.

Kentucky (open)
Polls suggest Jim Bunning is running neck and neck with Democrat Scotty Baesler in the race for old-time southern Democrat Wendell Ford's seat.

Other races

House of Representatives (left): 435 seats up; current standing: Republicans 228, Democrats 205, Independent 1.

At over 50 per cent of incumbents will be re-elected. As a result there are perhaps just 40 or so competitive races, most of them in open seats. There are potential switches in most states, with most interest focused on tight contests in California, Pennsylvania, Kentucky, Indiana, Iowa, Wisconsin and Washington. If Democrats can keep total Republican gains to single figures, they will claim a sort of victory.

Compiled by David Ritter

Senate races to watch

The map shows the main contests to look out for as the returns start to come in tonight. There are 34 Senate seats up for election: current standing – Republicans 55, Democrats 45.

Ohio (open)
Sen John Glenn's place on earth looks certain to be taken by popular governor George Voinovich.

New York
By far the closest contest in the US may prove equally as controversial. Incumbent Al D'Amato beyond the state's borders, independent Charles Schumer may prove to be the most interesting winner when the smoke clears.

North Carolina
Former congressman Dennis, now Republican Lael Wilcox, has been in trouble over his industry links. John Edwards – a right to the left?

South Carolina
Veteran Senator Ernest ("Fritz") Hollings also now looks likely to weather a strong Republican challenge from Congressman Bob Inglis, but it could still be close.

Microsoft 'wanted to impose credit card plan'

By Richard Wolfe in Washington

Microsoft wanted to clinch an alliance with its internet rival, Netscape Communications, to force the world's largest credit card companies to accept its plans for payment systems over the internet, according to confidential e-mails released yesterday.

The e-mails, released in the US government's landmark antitrust case against Microsoft, say the software company planned to offer Netscape a share of its credit card revenues as part of a deal to convince the internet software pioneer to "move out of" the market based on its best-selling Windows operating software.

The e-mail, from Thomas Reardon to fellow Microsoft executives in June 1995, appears to confirm Netscape's claims that Microsoft sought to carve up the market in internet browsers, which allow computer users to read information on the internet.

Mr Reardon wrote: "By partnering with Netscape on payment, even exclusively, we will force Visa and Mastercard and any other backend player to fall quickly into line and establish the 'per-click' business. This seems to be the grail that we all lust for." The internal message was written three weeks before a controversial meeting between Microsoft and Netscape executives in June 1995. The meeting stands at the centre of the US government's antitrust trial of the world's largest software company.

Netscape rejected Microsoft's offers and alleges its rival abused its monopoly power over Windows in an attempt to force it out of business. Microsoft has attempted to portray Netscape's claims about the meeting as a fantasy concocted to win government support for legal action.

As the Microsoft trial entered its third week, the government released further internal e-mails which detail Microsoft's plans for competing with Netscape.

Paul Maritz, another senior Microsoft executive, explained in January 1997 how the battle over internet browsers was the driving force behind Windows 98, the latest version of the operating software which was released this summer. Windows 98 places browsing features at the centre of the software which drives a computer's main operations.

Mr Maritz wrote: "To combat [Netscape], we have to position the browser as 'going away' and do deeper integration on Windows. The stronger way to communicate this is to have a new release of Windows and make a big deal out of it."

Further e-mails appear to confirm claims by Apple Computer that Microsoft used its market power to force its rival to take its side against Netscape.

The e-mails discuss Microsoft's threat to cancel the development of its best-selling Office products for Apple, which include word-processing and financial spreadsheets. A series of messages between senior Microsoft executives explain how the threat was vital to winning Apple's agreement to replace Netscape as the preferred, or default, browser on Apple machines.

The trial was yesterday expected to hear video-taped testimony from Bill Gates, Microsoft chairman.

France adds to pressure for Pinochet action

By John Mason in London

International pressure for General Augusto Pinochet, the former Chilean dictator, to be prosecuted for alleged crimes against humanity increased yesterday when a French judge joined authorities in Spain and Switzerland by issuing an international warrant for his arrest.

The warrant, from a judge investigating the disappearance of three French nationals in Chile in the early 1970s, will increase pressure on the UK House of Lords, which this week will decide whether the general should be extradited or be allowed to return to Chile.

The development came after it emerged that British victims of the former Chilean dictatorship led by Gen Pinochet will be allowed to argue in the House of Lords, the UK's highest court, for his extradition to Spain. In a highly unusual move the lords agreed to hear from lawyers acting for Dr Sheila Cassidy, a British doctor tortured following the 1973 military coup, the family of William Beausire, a British citizen who disappeared in Chile, and human rights groups such as Amnesty International and the Medical Foundation.

The lawyer acting for the victims and pressure groups, is expected, possibly by the end of the week. If they uphold the High Court ruling, it is expected Gen Pinochet will immediately leave the UK.

The hearing is expected to be more wide-ranging in its consideration of the issues of international law affecting the case than the High Court hearing. The UK's attorney-general, Sir John Morris QC, will also be represented at the hearing to explain Britain's legal position. He will not take any explicit position on extradition attempts by Spain.

On the web today

- Domingo heads for LA Opera
- Negative savings rates in US
- Film star magic deficit statistics
- NY race for Senate goes to the wire
- Mitch storms leave devastation
- Consensus grows for quiet political exit by Pinochet
- Teamsters' poll ballots sent out

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مكتبة الأصل

WORLD TRADE

SEA TRANSPORT BEIJING AGREES TO GRANT LICENCES BUT DISAPPOINTED EU TO PRESS FOR PARITY WITH US LINES

By James Kyne in Beijing

China plans to award two comprehensive shipping licences to European companies after more than a year of intense lobbying by the European Union.

But officials and shipping executives said the licences did not confer market access parity with two US shipping lines, American President Lines and Sea Land, which

have already been granted a licence.

This was because the US companies had also been granted approval for six branch offices across China.

EU officials said they were

disappointed that their companies, understood to be P&O Nedlloyd and Maersk, had not so far been granted permission for six branches each.

They said they would con-

tinue to press the Chinese for full parity with US companies. Many foreign shipping companies have licences for a basic range of shipping activities in China already.

The comprehensive licence would allow P&O Nedlloyd and Maersk to expand into warehousing, container repair, freight forwarding and forming agreements with trucking companies for

door-to-door delivery.

China has kept its distribution system largely free from foreign competition.

Earlier this year it shut down the direct selling activities of Avon, Amway and other US companies in a move that may make it more difficult for foreign companies to gain entry into the distribution sector.

But although the licences are expected to boost the

business of P&O Nedlloyd and Maersk, their geographical reach will be circumscribed unless permission for the six branch offices comes through.

The two companies currently have representative offices in China, which have a narrower business scope than branches, executives said.

The failure of China to grant permission for

branches comes at a time of concern that Beijing is narrowing business opportunities for foreign companies.

Authorities have launched an investigation into joint ventures in the telecoms services sector, reduced the stake that foreign insurance companies may take in joint ventures to a maximum of 50 per cent, and restricted foreign bank borrowing of renminbi.

Caribbean states take aim at C&W monopoly

By Canute James in Kingston

Eastern Caribbean governments and Cable and Wireless of the UK are discussing the introduction of competition in telecommunications services, easing the monopoly which the company has on several islands.

The talks follow a decision last month by Caribbean telecommunications ministers to renegotiate C&W licences.

Caribbean governments contend that the current licences and the lack of competition in several countries violate World Trade Organization rules on telecoms services.

C&W have responded by expressing their appreciation of the importance regional leaders place on telecommunications and said "we are keen to discuss the way forward". The company says it has spent \$1bn over the past five years to improve and expand telecoms services in the region, and plans to spend another \$1bn over the next five years.

"The monopoly arrangement must come to an end," said Glenford Stewart, telecommunications minister of St Vincent, where C&W owns the local telecoms company. It controls telecoms services in seven other English-speaking Caribbean

countries and has a 49 per cent stake in another. The governments want the company to consider the introduction of competition for a range of services and to allow interconnection by other providers. They want to see rate rebalancing and the rapid development of value-added services.

"It is not in a spirit of antagonism that we approach this matter, but rather in a spirit of trying to ensure that as a region we are able to benefit from the tremendous development in technology," said Phillip Paulwell, Jamaica's technology minister.

The Jamaican government and C&W are locked in a battle after the government announced a new telecommunications policy seeking to dilute the company's monopoly. The government says it wants greater competition in some telecoms services, but the company claims its future investments in Jamaica have been made uncertain.

The Jamaican government's plans were rejected by Errald Miller, president of C&W Jamaica. "This model has worked for Jamaica and we feel it is the only model that will deliver the type of infrastructure that Jamaica will require to enter the 21st century," he said.

India throws market open to all comers to provide internet access

By Mark Nicholson and Paul Taylor in New Delhi

India is set to end its state monopoly on internet access by issuing the first licences for private Internet Service Providers (ISPs) on November 7. In what senior officials call a "very, very liberal" internet policy, foreign companies will be allowed stakes of up to 49 per cent in ISPs.

Atal Behari Vajpeyi, the prime minister, who announced details of the long awaited and much delayed ISP policy, said he wished to see "the fastest possible proliferation of quality internet service" after removing the internet monopoly enjoyed by VSNL, the state international telecommunications carrier.

Mr Vajpeyi said there would be no limit on the number of licences available, for which there would be no fee for the first five of a 15-year licence. Thereafter, for legal reasons, a peppercorn fee of Rs1 would be charged.

India has around 130,000 internet connections and an estimated 500,000 users, about 80 per cent of them linked through VSNL, the state long-distance operator which introduced commercial internet services to India three years ago.

Pressure for an ISP policy and the clear sign of a potentially large ISP market have grown as users have become increasingly frustrated with clogged VSNL lines during

national telecoms access to and from India.

ISPs will also be accorded "last mile access", meaning they would be free to install data-based communications lines directly to customers, a move that will also challenge the monopoly on line connection enjoyed by state telecoms providers and newly franchised private basic telecoms companies. This will also raise the issue of internet telephony, which VSNL vigorously opposes.

These and other issues raised by the new internet policy impinge directly on India's complex, incomplete and flawed four-year-old telecoms liberalisation policies, which have seen licences awarded to joint Indian and foreign joint ventures to provide both cellular and basic telephony.

Accordingly, a special Information Technology Task Force, created in May by the government led by the Bharatiya Janata party (BJP), and the chief engine behind the new internet policy, has been asked by the premier to address these and broader problems with existing telecoms policy.

Mr Vajpeyi set the 23-member taskforce, comprising politicians, bureaucrats and businesses, the highly ambitious deadline of November 30 to resolve problems which have bedevilled the partially liberalised telecoms sector for the past two years.



India has 500,000 internet users, but the lines of the existing state monopoly are clogged. More than 50 companies are interested in providing an internet service

NEWS DIGEST

US AIR TRAVEL

Study praises advantages of hub and spoke system

Business travellers have benefited from the hub and spoke system of air travel in the US with more choices of routes and take-off times, more domestic and international destinations and more frequent same-day return trips. This was the conclusion of a study by two professors at Virginia's George Mason University, Kenneth Button and Roger Stough, who found the advantages of the system had reduced the "generalised costs" associated with lengthy air travel time, hotel costs and time spent in airport terminals. The hub and spoke system has meant the feeding of air traffic into large airports and the consolidation of passengers onto outward flights. While passengers may have to take longer trips than with direct flights, they also have more choice in service, the study says.

After analysing job and economic development data, the professors found that hub airports create employment rather than airlines selecting cities as hubs simply because they are already economically dynamic. An average hub airport increases a region's high technology employment by more than 12,000 jobs. Nancy Dunne, Washington

EUROPE'S DEFICIT WITH CHINA

Santer plea on trade barriers

Jacques Santer, European Commission president, yesterday urged China to remove trade obstacles as Europe paid the price for the Asian financial crisis by soaking up more Chinese exports. He said Europe's trade deficit with China would widen this year as a result of the regional crisis. "It is leading to a major upswing in Asian exports to the EU. China has been no exception," he said, adding that open markets had made this trading shift possible.

China's exports to Asia have crumbled this year as the Asian financial crisis sent currencies falling.

China's exports to the European Union reached \$20.27bn in the first nine months of the year, up 21.7 per cent over the year-ago period. China's imports from the EU rose 9.8 per cent to \$13.63bn during the nine-month period, creating a \$6.64bn deficit for the EU based on Beijing's data. Reuters, Shanghai

JORDAN'S ENERGY

Amoco close to gas deal

Amoco, the US oil group, is poised to clinch a deal with the Jordanian government allowing it to sell and distribute Egyptian natural gas in the kingdom. The group is heading a consortium including Tractebel of Belgium and private Jordanian interests. The deal would boost Egyptian foreign currency earnings, helping to offset declining oil production, and reduce Jordan's dependence on heavy fuel oil.

Amoco said the consortium would start building a pipeline from Ain Musa in the Gulf of Suez to Aqaba as soon as the licensing deal was finalised. Amoco has agreed the key principles of the purchase and sale of the gas with the Egyptian General Petroleum Corporation. The first gas would be delivered to Aqaba in 2000, with the line reaching Amman in 2002. Jordan would buy 110m cubic feet a day of gas, mainly for electricity production and industrial users, rising to 350m when the pipeline reached Amman. Christopher Swann, London

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BRITAIN

CONFEDERATION OF BRITISH INDUSTRY ANNUAL CONFERENCE

European allies join in calls for Emu date

By Kevin Brown, David Wighton, and David Buckland

The UK government came under strong pressure from business leaders and European allies to speed up moves towards British membership of the European single currency yesterday, as it emerged that the Treasury's outline national changeover plan envisages a transition period lasting until 2005.

Gordon Brown, the chancellor of the exchequer, announced that the changeover plan would be published in January 1999. Meanwhile demands from the Confederation of British Industry, the UK's principal employers' lobby, for the government to set a target date were reinforced by strong support from the British Chambers of Commerce, which represents more than 100,000 businesses.

Adding to the pressure on the government to give a stronger lead, Gerhard Schröder, the German chancellor, and José María Aznar, the Spanish prime minister, both expressed strong support at the CBI conference in Birmingham for greater "British engagement" in Europe. At a joint press conference in London with Tony Blair, the UK prime minister, Mr Schröder praised the government's "extremely clever approach" to the euro, implying that he believed it would eventually bring British public opinion round to the single currency. Mr Schröder welcomed Mr Brown's statement, and twice stressed the "constructive" part being played by Britain in Europe. In his CBI speech, Mr Schröder used warmer language than his predecessor, Helmut Kohl, telling business leaders in a



Peter Mandelson cited US experience Ashley Ashwood

passage on the single currency: "We wholeheartedly hope that we will soon be able to welcome the UK in our midst." Pro-Emu business leaders at the conference said they detected a warning in rhetoric towards the euro in speeches by Mr Brown and Peter Mandelson, the trade and industry secretary. Ian Peters, deputy director-general of the CBI, said: "We think there should be a date. If business is going to plan, we need greater certainty." Mr Mandelson said later: "I recognise that there is some impatience among the business community to have a more precise timetable, but we are not in a position to do that." William Hague, leader of the opposition Conservative party, said the chancellor's announcement was a significant shift in the government's policy towards

the euro. "They have not only set themselves in favour of abolishing the pound, but they have now set a clear timetable for doing so," he said. Unpublished drafts of the outline national changeover plan being studied by the Treasury say there would have to be a 40-month delay between the announcement of government plans to hold a referendum and the intro-

Trade chief to back business rescue reform

By David Wighton, Political Correspondent

Peter Mandelson, chief trade minister, yesterday cited US experience in support of a move to end the status of UK tax authorities as preferential creditors in company failures.

The change would encourage suppliers and other trade creditors to support business rescues rather than allow companies to collapse.

Mr Mandelson announced the move as part of the government's efforts to foster enterprise. He told the Confederation of British Industry's conference that the government would review corporate rescue procedures and consider legal changes to "reduce the stigma of financial failure" for entrepreneurs.

"Knowing that the taxman will get the lion's share of anything if it goes wrong is hardly an encouragement to setting up a business," said one government official. Supporters of its removal argue that suppliers and other potential trade creditors would be more likely to back rescues if the division of assets in the event of the company's failure were more evenly distributed.

"Banks and society as a whole don't write people off as failures. They seem them as people who have learned."

In a question and answer session after his speech, Mr Mandelson took a swipe at the London Stock Exchange for failing to provide British technology companies with the sort of specialist market available to US companies with Nasdaq.

Mr Mandelson used his first CBI speech as chief trade minister to insist the government was committed

Ford head criticises group's UK plants

By Juliette Jowett in Birmingham

Ford factories in the UK were "at least 20 per cent" less productive than the group average, Sir Alex Trotman, chairman and chief executive of the company, said at the CBI conference yesterday. He blamed out-of-date working practices, excessive direct and indirect labour costs, excessive overtime and high infrastructure costs.

Backing the UK government's calls for improved productivity, Sir Alex also urged ministers to take more action, especially on education and regulation. His claims follow a recent report by McKinsey, the consultancy, showing UK productivity is the worst of the Group of Seven industrialised nations.

"The UK has laid the foundation for growth with solid macro-economic policies," he said. "However – and this is a big however – there's more work to be done; this time at the micro-economic level."

• Ministers yesterday blamed "complacent" businessmen for the alarmingly slow start to the government's campaign to tackle the millennium computer "bomb". George Parker writes. The government said in March that computer training would be offered to 20,000 staff from small and medium sized businesses. But only 300 of the "bug-busters" have so far been trained.

See Editorial Comment and Lex

Business leaders back adoption of euro

By Kevin Brown, Industry Editor

Most business leaders want the UK to join the European single currency, and a huge majority think membership is inevitable, it was suggested by a bitterly contested debate between leading pro and anti-Emu campaigners yesterday.

More than 150 delegates packed into a small meeting room at the International Conference Centre for the

debate, organised by the European Movement as a fringe event at the Confederation of British Industry's annual conference in Birmingham, central England.

The debate – the only formal conference discussion of the impending launch of the euro in 11 European Union states – was marked by the unusual sight of business leaders being heckled. One delegate forecast economic chaos followed by civil war if Britain were to join the

European single currency.

At the end, about 90 per cent of delegates voted for the proposition that the UK would join the euro at some time. A smaller majority voted for the suggestion that entry should be as soon as possible.

Only a handful wanted to remain outside the system for a long time.

Lord Marsh, who opened the debate, complained that those who drew attention to the potential dangers of

the single currency were characterised as xenophobic mavericks.

But there were only three possible outcomes: the euro would succeed over time; it would work for other countries but not for the UK, because of historical differences; or it would fail because there was insufficient political will to overcome national self-interest.

"Nobody can deny that the possibility of failure is real and that the consequences of

failure would be horrendous," he said.

He accused the CBI and the government of taking part in an "unholy alliance" to stifle debate on the euro, and claimed that most CBI members were unhappy with the leadership's "unscientific" approach to gathering evidence of business views.

Lord Haskins, a Labour supporting member of the House of Lords, the upper chamber of parliament, said

that the euro was now a reality. Graham Mason, the CBI's business environment director, said the move could keep some troubled companies alive. "Once the government and the banks have had their share there is often not much left for the other creditors," he said. The issue will be the subject of a review by the Department of Trade and Industry and the Treasury.

EU veterinary team to vote on beef tomorrow

By Michael Smith in Brussels

European Union farm diplomats are expected to vote tomorrow on ending a 30-month ban on British beef exports.

Franz Fischler, EU farm commissioner, is ready to put to members of the EU's standing veterinary committee a scheme for ending the ban which he and his colleagues on the college of commissioners, the EU's executive, approved in June.

The standing committee, made up of member state representatives, would have to support the scheme by a qualified majority for the ban to be lifted.

That is thought unlikely but today's and tomorrow's vote will give an indication of which way farm ministers will go when they vote on the scheme later in the month. Complex voting rules means eight of the 15 farm ministers would have to oppose the scheme to prevent its adoption.

Mr Fischler's readiness to put the scheme to a vote appears to indicate growing confidence that farm ministers will back the scheme, at least not oppose it in sufficient quantities. His officials have frequently said they would be unwilling to risk a no vote because a rejection could put back ending the ban by months.

The ban was imposed in March 1995 after UK scientists identified a potential link between BSE (so-called mad cow disease) and vCJD, a similarly fatal illness affecting people. Before the ban, the UK was exporting

more than £500m (\$845m) of beef a year.

Nick Brown, UK farm minister, says UK beef is now among the safest in the world. This follows the slaughter of 3m cattle and the strict application of measures to prevent the spread of BSE. None the less, German consumers are still highly sceptical about British beef and the new SPD-led government is under strong pressure to vote against a lifting of the UK ban. Luxembourg and the Netherlands are among other potential opponents.

British officials were yesterday noncommittal about their assessment of the UK's chances, having seen several false dawns for a lifting of the ban. "We are making no predictions," said one. However, Julie Smith, representing the UK National Farmers' Union in Brussels, said she was cautiously optimistic the farm council would end the ban at their meeting on November 23 and 24.

The commission's "date-based" export scheme would allow the UK to sell overseas the meat from cattle born after August 1 1996, which covers the vast majority of British cattle.

Last week, the commission amended the scheme in a way that makes it more favourable to the UK by dropping its previous insistence that all beef must be de-boned under tight EU regulations in slaughterhouses.

Exported beef will still have to be de-boned, but there will be no requirement that bones be removed from beef sold in Britain.

Rate cut calls follow recruiting concerns

By Sheila Jones in Manchester

Engineering employers in the Midlands and Yorkshire regions of England yesterday joined calls for a 0.5 point cut in interest rates by the Bank of England's monetary policy committee this week after a survey showed "a dramatic reversal of the upward trend" in recruitment of apprentices and trainees.

Rising recruitment in the industry had been halted "by the approach of what could be a hard recession", according to the Sheffield branch of the Engineering Employers Federation. The federation's survey of 100 companies employing 13,000 people showed a significant fall in recruitment in all categories of trainees except manual operatives.

Sliding confidence among employers was also expected to lead to a 3 per cent to 5 per cent decline in jobs in engineering, described as the pivotal sector of the region's manufacturing industry. Engineering employers across the UK are predicting job losses of 100,000 from a workforce of 1.7m in the next 12 months.

Recruitment of young people had declined by 20 per cent in the past year because of a "fear of hard times ahead, sterling's problems abroad and an increasingly difficult market at home", according to the survey.

Gordon Scott, EEF Sheffield's regional director, said difficulties in global markets and declining confidence because of interest rate levels were the main factors.

Data publication halted after inaccuracy fears

Christopher Adams, Economics Staff

Official statisticians have suspended publication of the average earnings index cause of fears about its accuracy. The decision means the Bank of England's monetary policy committee may be deprived of crucial data when it meets to set interest rates next month. This is the first time publication of official statistics has been halted because of concerns over accuracy. The figures for National Statistics yesterday public confirmed the average earnings series had been dented. Figures, which are published monthly and relied on

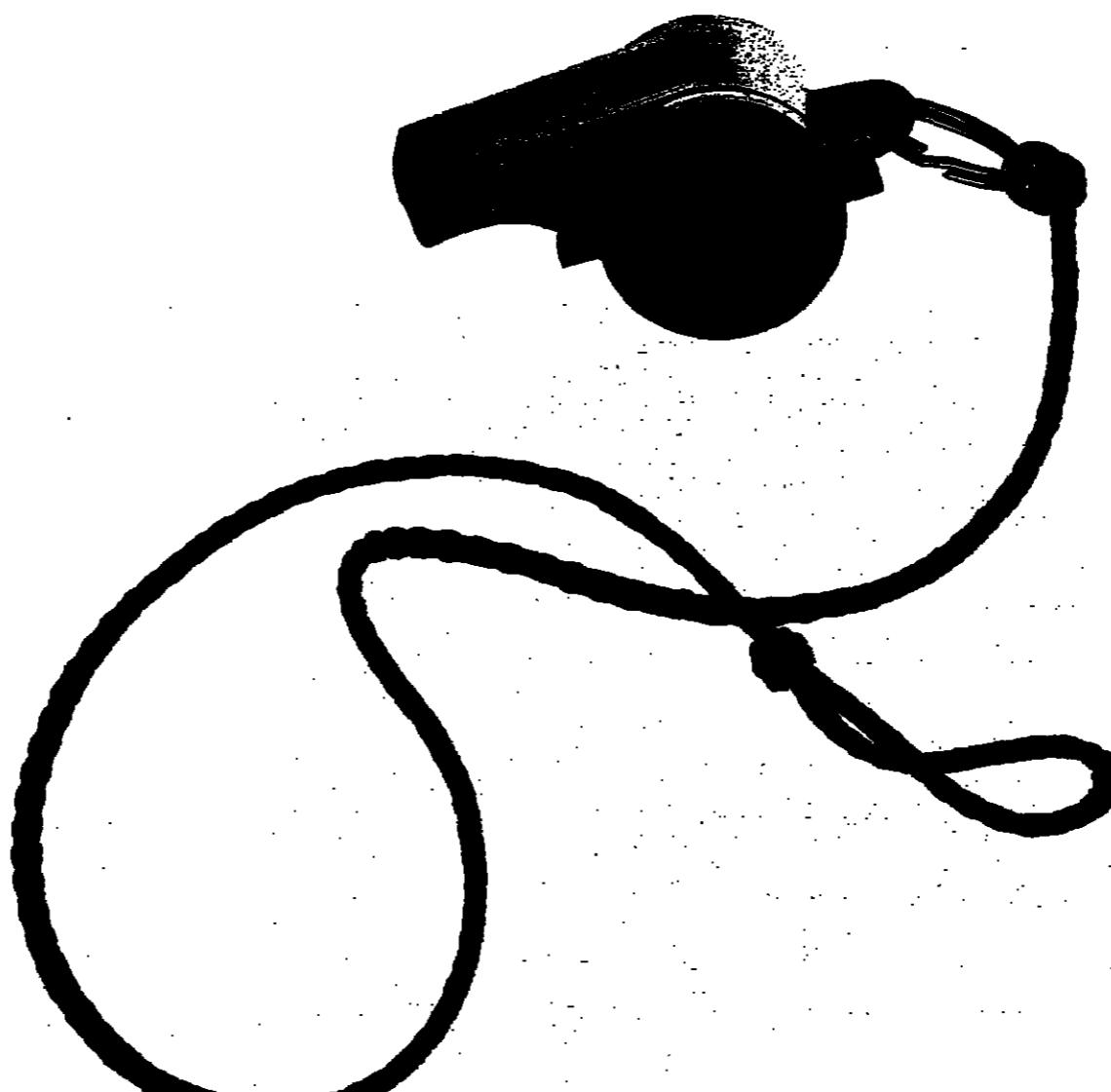
by the monetary policy committee as an indicator of inflationary pressures, were significantly revised last month, prompting a Treasury review of how the data are collated.

The next batch of figures, previously due next week, will not now be published until the Treasury has completed its study, which could take up to six weeks. Economists said the monetary policy committee would have to rely more on unemployment data when analysing trends in the labour market.

Tim Holt, director of the ONS, defended its decision, saying the office would prefer to publish only after the data received "a clean bill of health".

Expectations that the Bank of England will cut interest rates again this week, following the reduction in base rates last month from 7.5 to 7.25 per cent, intensified after a survey yesterday showed order books in the manufacturing sector shrinking at their fastest rate for at least 6 years.

• Merrill Lynch, the US investment bank, yesterday issued a bullish statement about the outlook for the UK economy. Jane Martinson writes. In a report which looked for improving conditions around the world the bank argued that the UK was in better shape than most other economies with the exception of Singapore.



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TELEVISION NEWS PUBLIC SERVICE BROADCASTER AIMS TO DISTRIBUTE CHANNEL TO CABLE AND SATELLITE ENTERPRISES

BRITAIN

BBC seeks partners for US ventureBy John Gapper,
Media Editor

The BBC is negotiating with a number of US media companies to form a commercial partnership that would distribute its BBC World news and information channel to cable and satellite television groups.

The attempt to sell BBC World as a digital channel for US cable and satellite companies comes in the wake of a similar joint venture between the BBC and Discovery Communications, the US commercial cable channel.

The BBC is thought to be talking to Discovery, Liberty Media, the US cable programming group, and EchoStar, the satellite television

company, and others about a joint venture. It hopes to strike an agreement by early next year.

BBC World, a channel funded by advertising and subscription that lost some £15m (£25m) last year, made its first entry to the US last month in a deal with 25 US public television stations that will carry daily news bulletins.

BBC World, which was launched as a commercial service in 1991 after the government rejected an effort by the BBC to gain public funding for a television equivalent of the World Service, is available in 50m homes worldwide. The BBC is a public-service broadcaster financed mainly through a state levy on UK

owners of television sets. Its efforts to gain wider distribution in the US are vital to its aim of breaking even in about five years' time. It is distributed via satellite in most regions of the world, and has a joint distribution deal in Asia.

BBC Worldwide, the corporation's commercial arm, is seeking to sell BBC World through a company in which it would hold a 50 per cent stake. It would also take a share of advertising and subscription revenues from sales.

Patrick Cross, managing director of BBC World, said that it could distribute the channel itself but preferred to gain some local expertise. "We think it will simply be more efficient to work with someone who knows the market," he said.

Earlier this year, the BBC made an exceptional provision of £3m when it wound up a joint venture distribution arrangement for Europe with Pearson, the UK media group which owns the Financial Times, and Cox Communications, the US cable group.

BBC America, the BBC's new entertainment channel, is now distributed to about 1.8m homes in the US following a deal with EchoStar, the satellite television company. It is distributed largely as a digital channel.

The BBC has been compet-

ing with Independent Television News of the UK to gain distribution for its news bulletins in the US. ITN has just signed a distribution deal with 30 public television stations.

• The UK government is today expected to recommend relaxation of the rules on the number of channels a single company can supply to digital terrestrial television.

The move will allow On Digital, the group owned by two terrestrial television companies, to launch its 30-channel service later this month without risking a breach of the law.

The government plans to consult the public on a change to the rules, which would allow broadcasters

such as British Sky Broadcasting, the satellite group, to supply more channels. If the government did not ease the restrictions, BSkyB, which has agreed to supply five channels to On Digital, would technically risk breaking the law. The government aims to rush through secondary legislation in time for On Digital's November 15 launch.

An On Digital executive said: "Clarification of the present position would be welcome."

Current restrictions prevent one company supplying more than two out of 12 digital terrestrial channels. Once more than 12 channels are being broadcast, one company is allowed to supply a quarter of the total.

NEWS DIGEST

NEGOTIATIONS WITH PFIZER

Government to restrict Viagra spending to \$17m

The government plans to limit expenditure on the anti-impotence pill Viagra to the total of between £10m (\$17m) and £12m that the state health service now spends on other forms of impotence treatment. Ministers plan to impose a "hybrid" ban on the drug, making it available on the state service only for very limited physical causes of impotence.

Otherwise, doctors will remain banned from prescribing Viagra on the health service, although they will be free, at their own risk, to prescribe it privately to their state patients privately for impotence caused by conditions not covered by the state service.

Ministers are aware that Pfizer, Viagra's US manufacturer, might mount legal challenge to a hybrid ban, but according to UK Department of Health sources, the government is likely to warn the company that it will simply maintain and reinforce the state service's existing blanket ban on the drug if that happens. Pfizer yesterday did not rule out such a legal challenge. Under government plans, Viagra is likely to replace existing and more expensive treatments in about four out of five cases, which should allow a substantial increase in the number of patients treated. Nicholas Timmins and David Pilling, London

DISPUTE WITH GOVERNMENT

Judge's order on Maxwell son

Kevin Maxwell, who was cleared of fraud charges over the collapse of the Maxwell publishing empire, was yesterday ordered by a High Court judge in London to provide UK government inspectors with written details of his knowledge of the £500m (\$645m) public offering of Mirror Group Newspapers in 1991. Mr Maxwell (left) is a son of the late publishing tycoon Robert Maxwell. However, Mr Maxwell complained to the court that he feared the Department of Trade and Industry might use the information to launch further legal proceedings against him. It was "unfair and oppressive" to expect him to provide more information while the government prevented him claiming legal aid to hire lawyers. John Mason, London

FINANCIAL REGULATOR'S POWERS

Tribunal plan to allay fears

The Financial Services Authority, the new integrated regulator for the City of London, has outlined plans for an independent tribunal designed to help allay fears about the extent of its powers. Philip Thorpe, head of enforcement at the authority, said yesterday he hoped the proposals would placate those concerned that its powers could breach the European convention on Human Rights.

Mr Thorpe was sensitive to the fact that the Financial Services and Markets Bill, published this summer, left a gap between the FSA's decision to commence proceedings against a firm or individual and the final Appeals Tribunal in which defence was limited. The idea of an "internal tribunal" is designed to fill that gap. "With this structure the prosecution will not be the judge and jury," said Mr Thorpe. Jane Martinson, London

NORTHERN IRELAND

Irish PM in peace move

Bertie Ahern, prime minister of the Republic of Ireland, yesterday visited Northern Ireland for talks with most of the political parties there in an effort to break the impasse preventing implementation of the April peace agreement. The talks focused on the need to agree the areas for cross-border co-operation, which should have been settled last weekend. However Mo Mowlam, the chief Northern Ireland minister in the UK government, played down the difficulties. John Murray Brown, Dublin

Digital media 'could create 80,000 jobs'

By Alice Rawsthorn in London

Digital media, the industry responsible for designing and creating content for the internet and other digital formats, such as CD-Roms, could create up to 80,000 jobs over the next eight years.

Some 20,750 people in the UK are employed in digital media, a sector that barely existed a decade ago, according to a study commissioned by the Digital Media Alliance, a consortium of companies involved with the industry.

The study is the first thorough analysis of digital media, one of the economic sectors that the government is committed to strengthening as part of its strategy of stimulating the creative industries.

There are 2,750 digital media companies in the UK with combined annual revenue of £687m (£1bn), according to the study. They include Dorling Kindersley Multimedia, the CD-Rom publisher; Psiion (UK), the hand-held computer maker; and Jupiter Research (Europe), the digital market research consultancy.

About 2,000 freelances, mustering combined annual income of £55m, work in the digital media sector. The study estimates that 500 specialist digital subsidiaries of traditional media groups produce annual turnover of about £167.5m. The work of these companies and individuals has given the UK an international reputation for having "recognised indigenous talent for creative ideas and cultural innovation" in digital media, according to the study.

It argues that the UK's digital media industry has the potential to grow by at least 20 per cent a year over the next decade. But it also identifies obstacles, including the high cost of updating technology and the high UK cost compared with the US of accessing the internet.

Bankers bid 'sayonara' out of season to City of London

However inauspicious the time, financial upheaval inside and outside Japan drives expatriates home, Emiko Terazono writes

October and November are hardly auspicious times for moving house, according to the traditional Japanese calendar - many prefer to choose the spring, which symbolises a new beginning.

Yet Japanese removal companies operating in London say they are experiencing one of their busiest periods for several years.

Removal requests from Japanese expatriate bankers returning home have increased by 20 per cent over the past few months, says

Akira Horuchi of Nitto, the Japanese moving and parcel delivery group. "The traditional peak season for moving is April, but this year it's different," he says.

It is an ever-growing trend as the deepening recession back home and the global financial upheaval have hit Japanese financial institutions.

Last week, Mitsui Trust & Banking joined the list of Japan's once mighty financial houses forced to retreat from London - forcing Japanese expatriates to cut short

their three years of unlimited golf away from the office.

The decline in the number of Japanese bankers has transformed the clientele at Noto, the *romen* (Japanese noodle) shop in the City. Where Japanese salarymen used to sit, a more international blend of customer is taking over.

But Noto and the Japanese removal companies may be among the luckier businesses catering to Japanese corporate expatriates. As Japanese bankers bid *sayonara* to the City of London, the businesses that relied on them are feeling the pain. "Everybody's suffering," says the owner of a London-

based Japanese-language newspaper.

The number of Japanese in the UK has fallen steadily from its peak of more than 56,000 in 1993. Of this, corporate expatriates and their families accounted for some 30,000, a figure which is believed to have fallen by more than 40 per cent.

Estate agents operating in the traditional Japanese enclaves in north and west London are experiencing the effects. "It was quiet until about September, but they're going back in droves now," says Japan Service, based in west London.

Among those severely affected are restaurants and bars that allowed Japanese

bankers to lead lives as they would in Japan - long hours in the office, eating at Japanese restaurants, and drinking with colleagues after work at karaoke bars complete with *mama-san*. The list of venues forced to close their doors grows daily.

The fall-out has been worst in the financial sector, expatriates working for manufacturers and other companies have been less affected. There is a sense of *scheidenfreude* among expats working for other sectors which reflects the negative sentiment against bankers that has gradually grown over the past few decades in Japan - first, because of the "bubble economy" in which

assets surged as a result of excessive bank lending, and then the worsening bad debt problem, seen as a root of Japan's economic problems.

"One of our neighbours who worked for a bank was gone one day after about a year. There is little movement among people working for other companies," says an official at a Japanese electronics company.

But as the effects of the global economic slowdown hit the UK, the retrenchment is unlikely to stop at banks and brokers.

"The banks are the first wave," says a Japanese business reporter based in London. "The manufacturers will be next."

Warning to Scots on cost of secession

By James Buxton
in Edinburgh

The Scottish National party's dream of taking an independent Scotland into the European single currency would require heavy cuts in public spending or large tax increases to meet the Maastricht criteria, Donald Dewar, chief minister for Scotland in the UK government, warned yesterday.

The Labour government was committed to boosting public spending in Scotland by £4bn (£6.75bn) over the next three years, he said. But this would mean Scotland's budget deficit being more than 4 per cent of gross domestic product, exceeding the Maastricht convergence criterion of 3 per cent.

Mr Dewar, in his latest attack on the SNP and its separatist policy, said it would require a cut of £1bn in the Scottish deficit for an independent Scotland to qualify to join the euro, a key plank in SNP policy. "This means an early dash for the single currency would leave a financial black hole of £1bn."

Mr Dewar said there would be sufficient headroom for the UK as a whole to meet the Maastricht criteria over the coming years even on the reduced forecast for GDP growth which Gordon Brown, the chancellor of the exchequer, is expected to announce today in his pre-Budget statement.

Independent forecasters suggest Scotland will have higher GDP growth than the UK as a whole next year, but it would still suffer the structural budget deficit that government and independent economists have identified in the past.

Alex Salmond, the SNP leader, scored Mr Dewar's attack. Mr Dewar had clearly accepted the nationalists' assumption that Scotland would get 90 per cent of North Sea oil revenues, and was thus accepting that Scotland would have a higher GDP per head than the UK as a whole and be the seventh-richest country in the world, he said. "It is absurd to suggest that the seventh-richest country in the world is too poor to join the euro."

• Alun Michael, the new chief minister for Wales, is expected to become the governing Labour party's candidate for first secretary of the planned Welsh assembly. Colleagues of Ron Davies, who was forced to forego that position and that of Welsh secretary after a "lapse of judgement" involving being robbed, said he would support Mr Michael.

Foul!

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MANAGEMENT

GROWING BUSINESS BUY-OUTS

Big money with nowhere to go

The effect of stock market volatility on values has opened a gap between buyers and sellers, writes Katharine Campbell

Having the biggest buy-out fund in town no longer looks quite as clever as it did only a few months ago. Until recently, European private equity managers such as Doughty Hanson, CVC Capital Partners and Cinven - guardians of the most substantial war chests raised in the past year - could pitch for the really glamorous deals, enjoy the fattest management fees, and reward their staff the best.

Now the buy-out market is sputtering, particularly at the large end - precisely the sorts of transactions which are crucial if these multi-billion funds are to be spent at anything like the rate investors had been promised. Cinven, which dazzled its competitors during its 1997 shopping spree, could well see out 1998 having completed just two deals, the buy-out of Kappa, the Dutch packaging business, and IPC Magazines of the UK. Finding a home for all that cash is going to be a headache.

Some transactions are still proceeding. Morgan Grenfell Development Capital completed its first big deal for a while with the DM900m (£545.7m) purchase of Vianova, a synthetic resins business, from Hoechst, the German chemical company. Charterhouse Development Capital (CDC), almost entirely absent from the market for two years because it thought assets were overpriced, has forged ahead with the purchase of Tussauds Group from Pearson, the media group that owns the *Financial Times* - in a multiple of earnings steep enough to make its competitors, predictably enough, shake their heads.

However, the failure of Kohlberg, Kravis Roberts's bid for Herberts - another Hoechst disposal - rocked

small buy-outs. "Everyone is having to take a bit of pain to get deals away," says Michael Joseph, managing director of Lloyds Development Capital.

At the same time, buy-out houses are finding their style seriously cramped by a sharp contraction in the availability of debt.

On the one side, they face the effective closure of the high-yield new issues market, which had for the last year facilitated the financing of some very ambitious structures. Colin Balfin, joint managing director of Candover, says he does not expect any movement "for quite some time". He also cautions that, with the advent of the single currency from next January, sterling high-yield bonds would likely be harder to sell to foreign investors.

Deals have become more difficult to close for two reasons. First, stockmarket volatility has thoroughly upset pricing assumptions. John Brown, deputy managing director of Cinven, explains: "There is a large gap in

'Everyone is having to take a bit of pain to get deals away'

expectations between buyers and sellers. Vendors are reluctant to alter their expectations of value fundamentally - unless they are forced sellers. But purchasers are saying 'Look, the world has changed.' The other problem, as he points out, is "we simply cannot get the same amount of debt". Some vendors have been willing to drop prices. Hoechst is understood to have accepted a roughly DM100m reduction for Vianova - but to have balked at the DM450m or so KKR was understood to have wanted to shave off its Herberts offer. There is tough talking even in the very

buy-out house said it had

£200m of debt arranged for an unnamed deal it recently aborted for other reasons.

But many banks indicate

that no more than £200m to

£300m of debt finance would

be available for a single deal.

It is tough even in the smaller, unsyndicated deals. Jeremy Sharman at Mercury Asset Management's private equity division says: "The banks have scaled back,

although the more traditional players such as the Scottish banks which historically provided more debt through recession are proving more robust this time around too."

The banking community

has suddenly become much pickier, both about the quality of the business and the structure of the deal.

Gordon Bonnyman, managing director at CDC, may have paid a roughly 16 times

multiple of 1997 pre-tax earnings for Tussauds, but he is adamant that he has bought a robust business with significant growth prospects.

"In the past two years, people have been paying growth multiples for some very dull businesses. This is different."

Structures have become much more conservative. CDC contributed as much as £155m in equity to the total £400m financing package for

Tussauds, with £200m of senior debt from Bankers Trust. Part of the latter could be securitised only at the third attempt. "On the last piece of senior debt we had to pay four percentage points over Libor when we had hoped for two," says Eric Walters, partner.

In sum, a testing environment awaits private equity managers in coming months. There will be fewer, better structured deals, with the more established players boasting the most solid banking relationships faring the best. Few would deny, though, that a dose of cold water was in order after the excitement of recent months and years.

Katharine Campbell

DEUTSCHE BANK Fund's target takes a trim

DTHE private equity arm of Deutsche Bank is braving financial market volatility to raise a new pan-European DM2.5bn (\$1.52bn) fund.

Graham Hutton, who took over as Deutsche Bank's head of private equity earlier this year, says: "It looks quite positive. One might have thought investors would be sitting on their hands. But, surprisingly, risk-aversion is not hitting our business. People can't put all their money into bonds."

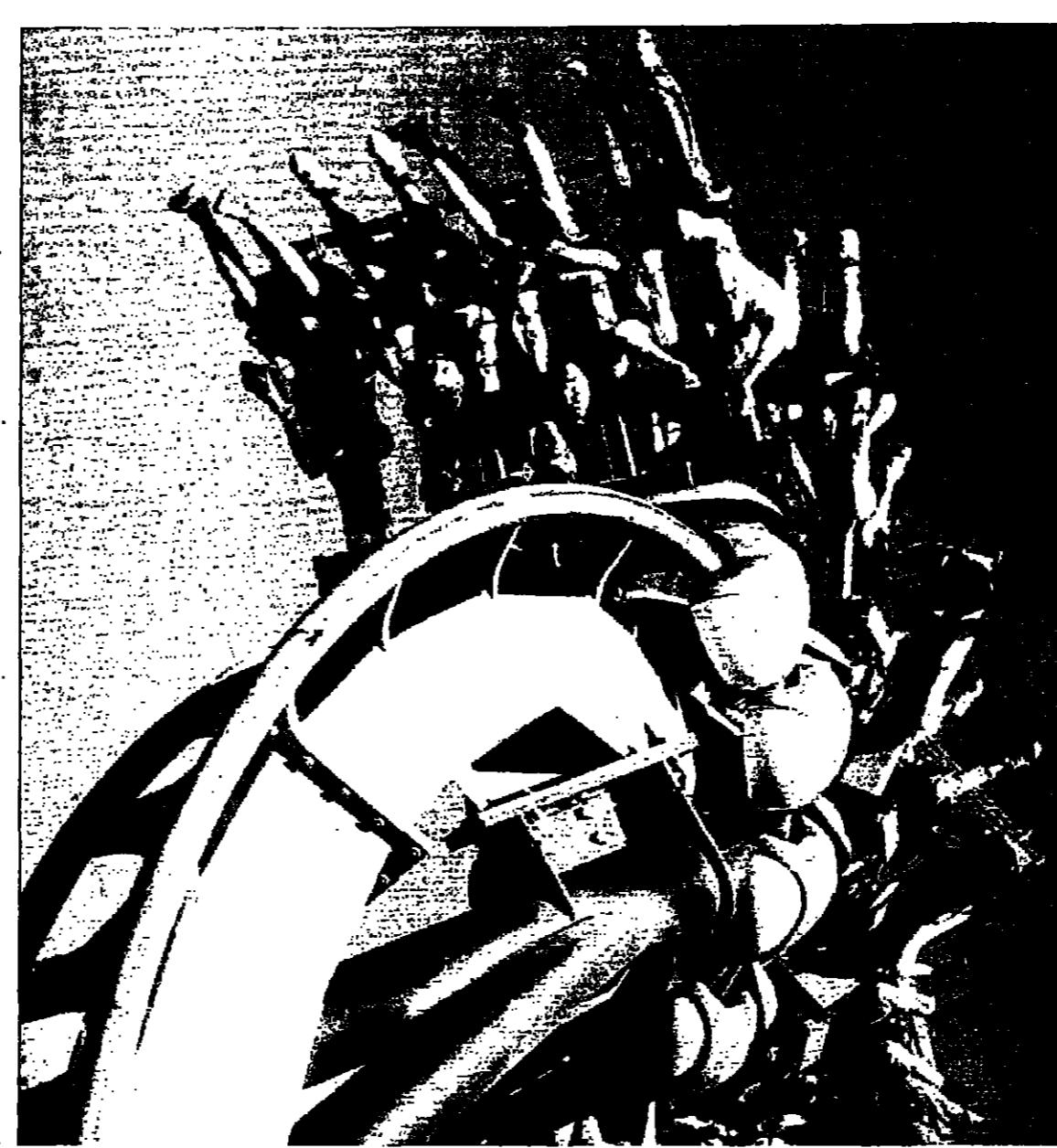
At the same time, Mr Hutton admits he has adjusted his target slightly downwards from an earlier DM3bn. "People who have raised the really big funds have not spent very much of them yet. It may be nice to have the fees but they are going to be pretty challenging to invest."

He has started pre-marketing among US institutions and investors in previous funds and hopes to complete the exercise by June. Deutsche Bank will contribute a quarter of the total raised.

Morgan Grenfell Development Capital, as the unit is still known - a name change is imminent to Deutsche Bank Private Equity or something similar - has had its problems.

Sweater Shop, a large investment made in 1995, has been written off, while Mr Hutton, who was brought in earlier this year, is in the middle of getting the team back on track after a period of upheaval.

Returns on the early funds were sparkling, however, and the Deutsche Bank parentage should help enormously in the German market, where Mr Hutton expects to invest at least 35 per cent of the new money.



White-knuckle time: the purchase of Tussauds Group, which includes Thorpe Park and its Nemesis ride, is one of the few deals to have been completed against a background of turbulent financial markets

It's a real responsibility of us as a company to do what's right for our customers. And that's really important to me so I always look for the best vendor. And I always put my name on. I always make sure that I have worked with the best vendor over the years, and I always do when I tell my customers my name, they know I'm a good vendor. So you're the best vendor. And I always do what's right for my customers.

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TOTAL CAPITAL RATIO

Ratio of bank's capital and reserves to its risk weighted assets. Dexia posted a ratio of 14.1% on 30 June 1998.

MAIRE info

Internet site set up by Crédit local de France and the Association of French Mayors providing information for local authorities.

CAC 40

Dexia France is one of the 40 leading stocks on the Paris Stock Exchange.

ASSET MANAGEMENT

Business sector covering private banking, mutual funds and institutional banking. Total assets under management on 30 June 1998 came to BEF 885 billion/FRF 144 billion.

LIFE INSURANCE

Life insurance premiums collected by Dexia on 30 June 1998 were up 18.3% year on year with 1997.

PUBLILINK

The Crédit Communal de Belgique's telecommunication network for its public sector customers.

NET BANKING INCOME

The sum of net interest income and other income. Dexia's net banking income on 30 June 1998 was BEF 54 billion/FRF 8.8 billion, a year on year 16% increase.

BANCASSURANCE

Strategy developed by the group to commercialise a full range of insurance products for its customers via its network of 950 independent agencies in Belgium.

RETURN ON EQUITY (ROE)

Ratio measuring the profitability of equity capital. Dexia posted an ROE of 14.2% on 30 June 1998.

BEL 20

Dexia Belgium is one of the 20 leading stocks on the Brussels Stock Exchange.

CONSORTIUM COMMITTEE

The four member committee responsible for the day-to-day management and strategy in Dexia.

MUNICIPAL BONDS

Bonds issued by American municipalities to fund their infrastructure expenditure and guaranteed by banks. New York Agency works mostly in this area.

DEXIA

OPERATING RATIO

Ratio between expenses and net banking income. Dexia posted an operating ratio of 51% on 30 June 1998.

PFANDBRIEFE

Fixed rate German bank bonds reserved to mortgage banks. Pfandbrief issues from Dexia Hypothekenbank Berlin AG are rated AAA.

RATING

Internationally accepted indicator measuring the creditworthiness of major banks. Dexia is rated AA+/Aa1 by Standard & Poor's and Moody's.

BILonline

High security online banking service via the Internet for the Banque Internationale à Luxembourg customers.

ADVISOR

He helps projects promoters (municipal or corporate projects) assess the feasibility of a project and negotiate with arranger banks. Dexia is currently acting as advisor for a group involved in the financing of motorways in Portugal.

SAVINGS DEPOSITS

The outstanding total for savings deposits from Dexia retail banking customers stood at BEF 492 billion/FRF 80 billion on 30 June 1998.

LEAD MANAGER

Organises the syndication of operations and investment in capital markets. Crédit Communal de Belgique and Banque Internationale à Luxembourg are lead managers for euro bonds issued by Crédit local de France.

OPERATING COMPANIES

Dexia consists of four operating companies: Crédit local de France, Crédit Communal de Belgique and their subsidiaries, Dexia Project & Public Finance International Bank and Banque Internationale à Luxembourg.

ARRANGER

Finalises legal and financial operations and organises the implementation of the package. Dexia has acted as arranger for major projects in France (Strasbourg Tramway, Normandy Bridge) and bond issues for major towns (Lyon...).

COMMERCIAL BANKING LOANS

Credits to small and medium sized companies and the self-employed, consumer financing and mortgage loans. The outstanding amount on 30 June 1998 was BEF 401 billion/FRF 65 billion.

EURO MEDIUM TERM NOTES (EMTN)

Euro bonds issued as part of a pre-established programme. Crédit local de France has issued FRF 29 billion in EMTN since 1st January 1998.

DIGITAL BUSINESS

SEVENTH IN A 10-PART SERIES PUBLISHED ON TUESDAYS AND THURSDAYS



Virtual auctions knock down costs

It is "like watching the Kentucky derby for an hour on a computer screen", says Kent Brittan, vice-president for supply at United Technologies, a US industrial company with interests from fits to jet engines.

He is describing a practice pioneered by United's subsidiaries in which suppliers put in bids over computer networks to sell parts such as printed circuit boards.

Such "electronic auctions" are an example of efforts by companies - mainly in manufacturing but also in distribution and services - to use computer networks, including the internet, to simplify links with suppliers.

In Mr Brittan's initiative, digital signals from perhaps 20 rival suppliers worldwide are transmitted to one of United's divisional headquarters. The messages appear on a screen as blips indicating the prices each supplier is quoting, with the winner being whichever emerges after one hour with the lowest bid.

The auctions were started by United last year to simplify bids by outside companies supplying so-called "commodity" products - including motors, wire, plastic fabrications and electronic parts.

Companies are turning to online tendering as a cost-effective and efficient way of obtaining supplies. Peter Marsh discovers how groups such as United Technologies and IBM have automated their supply-side activities

Purchases of such items account for about one-quarter of the \$14bn (£8.2bn) a year United spends on all bought-in goods and services.

Mr Brittan says costs for this part of the supply bill can be reduced significantly by cutting the administration needed to deal with thousands of small companies. One approach is to telescope the bidding into a short period using telecommunications and computer technologies - creating what amounts to a "virtual" global auction room.

A typical manufacturer might spend the equivalent of half its turnover buying in goods and services - of which half are likely to be "indirect supplies" such as paper, office furniture and accountancy services. The rest will be components and assemblies used directly in the production process.

Bought-in goods and services can be ranked in ascending order of complexity, roughly proportional to the amount of time and effort customers have to spend specifying the items involved.

At the bottom of the chain are "indirect supplies". Paperclips are, after all, nearly all identical whether they are used in a high-tech semiconductor factory or by a local shopkeeper.

Perhaps because of their lack of complexity, indirect supplies have been "just about the last items of company purchasing to

be automated", says Susan Dwyer, marketing director at Commerce One, a Californian company which is a leading provider of software to sift out competing bids for such items. Customers such as Eastman

Orders and billings can be despatched electronically, reducing administrative bills

Chemical and MCI, the US telecommunications company, are using its software and the internet to check on quality and price for hundreds of indirect items - all listed by their companies on specific web sites. In many cases, orders and billings can be despatched electronically, cutting administrative bills.

At a further level of complexity are the "commodity components" used in manufacturing processes.

In these cases, customers will have to do more "pre-screening" of suppliers to check who is qualified for bidding. Gene Tyndall, a supply chain expert at the Washington DC office of Ernst & Young, the consultancy group, says companies involved in trying to automate the supply side of their operations often underestimate the time they have to spend instructing suppliers how to use the new computer links.

United Technologies has divided all its commodity supplies into about 100 groups involving a large proportion of its 58,000 suppliers worldwide. But relatively few are ready for online bidding using auctions, says Mr Brittan. "Before this can happen, everyone has to put in a great deal of homework."

At the third and highest level of complexity are more highly engineered parts where customers and suppliers have spent considerable time discussing specifications or doing joint product development. Examples might include gearbox parts for a car factory and power supplies for a computer plant.

Because of the resources both sets of companies have devoted to supply arrangements, they are more likely to exchange information using computer networks.

At IBM's computer factory in Greenock, Scotland, which makes 15m personal computers and other electronic items a year, the company links, via the internet, 125 suppliers of items such as memory chips, batteries and disc drives.

Orders for these items are "posted" electronically every day to the suppliers (using encrypted software), and in some cases the parts are delivered by "service points" maintained by suppliers at the Greenock site. Ten suppliers have set up such service points - which act as "miniwarehouses" - with another 20 due to follow by the end of the year.

With the payment process for suppliers starting only when they release their components at the service point, and with the entire procedure administered electronically, IBM has been able to cut greatly the money it has tied up in inventory. For some components, inventory turnover has

risen 10-fold, in the past five years, to 150 a year, according to Harry Stanton, head of supply management at Greenock.

Sometimes using computers to link outside suppliers has had unexpected effects on companies' internal operations. According to John McDougall, head of manufacturing at a plant in Motherwell, Scotland, run by Honeywell, the US maker of electronic control devices, the company found that heavy use of computers in linking outsiders led to a much simpler system for pushing components through its own factory.

"Because there is a much smoother throughput of components, we found we didn't need the software we had in the past to monitor safety stocks and materials flow."

It is important, according to Ron DeFeo, chief executive of Tarax, a US maker of heavy trucks and cranes to think about the process first and to specify the computer system afterwards.

The systems are "a way to solve problems and must not be the whole strategy", he says. "So many times I have seen computer systems purchased [to automate parts supply] and the only one to have benefited has been the software provider."

Carmakers share the ride

Haig Simonian on US manufacturers and suppliers who created a private communications network to 'extend enterprise'

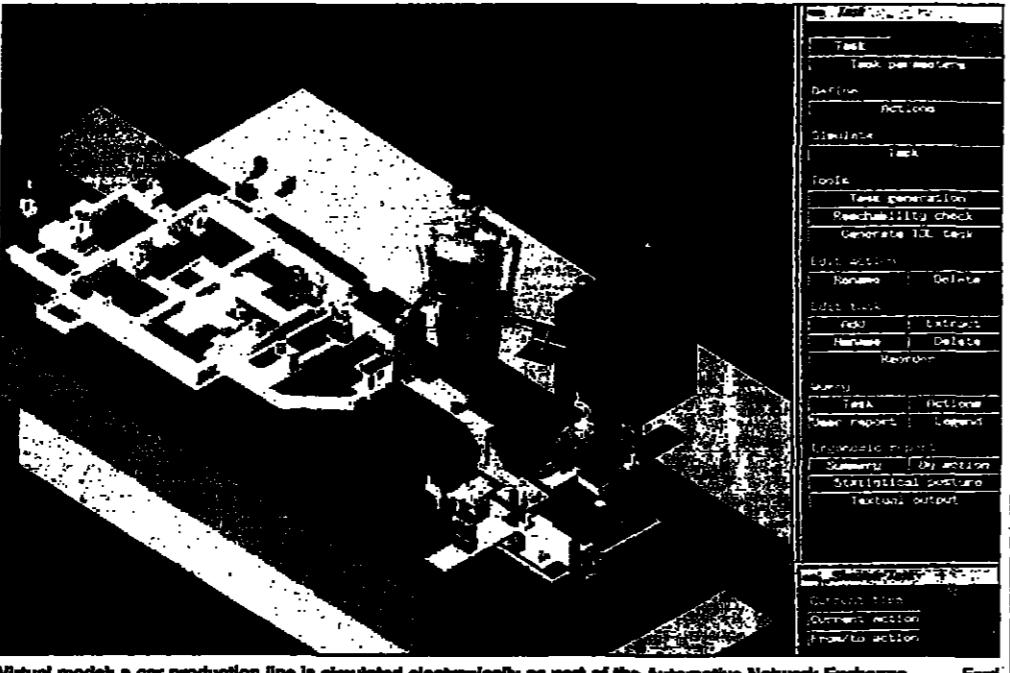
This week's start of "full production" at the Automotive Network Exchange represents a landmark for the US motor industry in its work on digital commerce.

Sponsored by the Automotive Industry Action Group, a US industry association formed by the Big Three carmakers and their leading suppliers, ANX has provoked attention from other industries trying to streamline communications and data exchange.

The thinking behind ANX, which has been running as a pilot scheme since December, is simple. For years, US carmakers and suppliers have been trying to do business more easily and cheaply. That did not mean banning face-to-face meetings or entertaining at the golf club. Instead, the intention was to improve electronic data exchange, security and reliability.

The volume of information flowing between manufacturers and suppliers has grown hugely in recent years. Carmakers, driven to cut research and development costs, have devolved more and more work to suppliers instead, for example, of being presented with final blueprints or a new part and told to come back with bids, big suppliers are directly involved in design and manufacture from the earliest stage of a new vehicle's life in a relationship dubbed "extended enterprise" by Chrysler, one of a foremost exponents.

Suppliers and their carmakers have communicated electronically almost from the day computers learned to talk. At these were invariably bilateral dialogues. Each, for example, agreed different software and communications protocols, creating the need for expensive hardware, software and the information technology specialists to make them work. And security did not always be taken for granted. Some companies turned to the internet, but experience showed the public net was not secure, and was even shaken when it came to immediate availability, speed of data



Virtual model: a car production line is simulated electronically as part of the Automotive Network Exchange

Participants can exchange anything from complex Cad/Cam drawings to e-mail

contracted services. To police the ISPs and keep an eye on the overall network, ANX appointed Bellcore as its "overseer".

Apart from basic criteria of performance and reliability, service providers are also required to demonstrate they can meet standards for interoperability, disaster recovery, customer care and trouble handling.

The move to "full production" means ANX is looking to broader

goals. Internationalisation is one. The network is already talking to representatives of Europe's motor industry. The Europeans already have a group, called Odette, looking at electronic data exchange, although nothing similar to ANX is running yet.

Some pilot schemes may lead to a broader relationship with ANX. Further aims include expanding into other areas of the motor industry, such as links with dealers. ANX also hopes to include wider electronic commerce and telecommunications.

Curious for a venture born partly from the desire to reduce expenditure, there are few clear estimates of what ANX might save or of how much traffic it is already carrying. "The service will significantly reduce current and future communication costs throughout the entire automotive supply chain," says Richard Simmons, AIAG executive director on loan from Ford.

He cites an AIAG study which suggested the motor industry in North America could save \$1bn a year by implementing a common approach to electronic data interchange throughout the supply chain. In another study taking large, medium or small companies (based on turnover), ANX argues users could make up the costs of hooking up to the network within less than five months.

Despite that, the use of electronic bulletin boards like GE Marketplace could become a significant factor in GE's electronic commerce armament, and could have a profound impact on its suppliers.

GE set out to apply the technology of the internet to its dealings with suppliers in the mid-1990s as part of an effort to bring down purchasing costs.

The aim was to improve speed, cost, quality, says Gary Reiner, chief information officer. Much of GE's purchasing power

is fragmented, with buying decisions devolved to people around the group. Also, processing orders was fraught with human error: more than a quarter of the 5m invoices processed by GE each year have to be reworked, adds Mr Rowe.

A large part of the solution could come from doing away with the group's patchwork of purchasing systems. GE's industrial controls business, for instance, had seven by combining them, the benefits of standardisation become possible. A common system will allow the division to "create a virtual business", combining orders from different sources to harness the group's buying power.

Combined with the technology of the internet, standardised purchasing systems stand to transform relationships with suppliers.

Take the latest incarnation of GE Marketplace, now known as TPN (Trading Partner Network). The system acts as a web-based noticeboard: suppliers post their catalogues on a master database maintained by TPN. GE buyers can then use a standard web browser to compare prices or products, and make purchases online. A purchase triggers an automatic purchase order and shipment from a supplier.

The system, being rolled out first in GE's lighting division, will be used for buying indirect materials - those not used in GE products - and for items as small as screwdrivers or batteries.

"It forces our employees to use the contracts that have been negotiated centrally, where there is much more leverage," says Mr Reiner.

GE is now opening the TPN.

Gary Reiner: aims to improve speed, cost and quality

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THE ARTS

Master of the drip and run

William Packer hails an important retrospective which puts the work of Jackson Pollock into context

Such is the world we live in – indeed, such is human nature – that we too often allow the biography to get in the way of the substantial work, obscuring or distorting our view of it, as through a prism. It is the stuff of the newspaper feature, the bio-pic, the chat-show puff; and for the visual arts it is the job of the retrospective to put the record straight.

If there is a problem with Jackson Pollock, it is only that the biography is all but inescapable – that old saga, irresistible at a safe distance, of drinking, depression and general bad behaviour, punctuated by bouts of frenetic creative therapy and rounded off by the fatal drunken crash into a tree.

There is no doubt that Pollock was a difficult, often deeply objectionable man, but he was also an artist, and the real achievement of this exhibition at the Museum of Modern Art in New York, is to show just how true and significant an artist he really was.

With the work too, the story in outline is familiar enough – the early Surrealist Expressionism, then the shift into full Abstraction and the first essays with drips and splashes, the triumphant mastery of the drip-and-run technique in the later 1940s, the desperate return to a kind of symbolic



Extraordinary things, speaking for their time and circumstance no less profoundly than Picasso's 'Demoiselles' of 1906: 'Blue Poles: Number 11', by Jackson Pollock, 1952

early 20th century Modernism – to Ernst, Miró and Matisse, to Beckmann and Kandinsky, and to Picasso most of all.

The point in attributing such influences is not to question Pollock's own originality, but rather to validate it. All art must have its context, and bearing such particular comparison serves only to show how strong Pollock was so soon, and to make the later personal development the more convincing. The first few rooms show quite how precocious he was, with a tiny, fierce, almost demented self-portrait of around 1932, and a monumental standing nude (after 1938) of a man with a turnip, or perhaps a bomb, for a head.

The imagery of the next few years is allusively figurative, symbolic and totemic. Always the paint is rich on the surface, but already characteristically active – even aggressive – in the application, even where, as in the great 'The Guardians of the Secret' (1943), or the Beckmann-like 'Male and female' (1942), the composition itself is stable, archetypal.

In coming out of this

phase, just after the war, into total Abstraction, he in no sense abandons such formalism. Indeed, the exhibition celebrates throughout not just the fact, but the actual nature of Pollock's technical control. From the first cloaked surfaces lightly overlaid with runs and splatters of paint, to the canvases entirely composed of them, he always knew just what he was doing. Film and photograph may set up the enduring joke of the artist chucking paint about and hoping for the best, but it remains a joke, and we need only look

into these densely con-

structed, active yet immaculate surfaces to give it the lie.

We look in upon skein



PETER MARTIN

Hedge of the abyss

The craze for hedge funds reflected a growing appetite for risk. But their losses also provide lessons for traditional investors

The Soros funds restructure. The Tiger funds lose \$50m in two months. When the best-known hedge funds wobble, other financial performers take pride in firmer footing.

That may be too complacent. The trials of the hedge funds reflect some more general lessons about financial markets. Before exploring those, however, a word about terminology. The phrase "hedge fund" is used to describe lots of different vehicles, some of them no riskier than traditional investing. Here, I am talking about high-octane hedge funds: those that make use of startling leverage (like Long-Term Capital Management) or that take deliberately risky "macro" bets on economic trends (like Mr Soros and Julian Robertson's Tiger funds).

The explosive growth of hedge funds in recent years has had a number of causes. One is changes in US legislation which allow private investment vehicles to take in a larger number of participants without having to achieve the disclosure levels of public funds.

A second is the supply of capital from a new generation of entrepreneurs who have taken their high-technology businesses public and are not yet ready to sink the proceeds into blue chips. They want action, glamour and excitement - and the hedge funds promise all three, even if the last few months have provided a little too much of the third.

One lesson here for more traditional financial intermediaries - such as Geneva's private banks - is that rich private clients need sizzle as well as steel. They want to feel that they are insiders in the great investing game, not just

coupon-clipping rentiers. As long as that mood lasts, private banks will continue to lose market share.

The most important cause of the hedge fund craze, however, has wider implications. In the late stages of a bull market, attitudes to risk shift in two complementary ways. The future appears less risky; at the same time, investors' appetite for risk rises. To get the amount of risk they seek, investors are forced ever further into the unknown, discounting earnings that are no more than hypothetical, relying on the infinite projection of hiccup-free growth and so on. Although deliberately risky vehicles, such as hedge funds, take this process to extremes, others follow suit. So even traditionally risk-averse investors end up with higher exposures to risk than they would permit in less optimistic times. This is the atmosphere in which money is freely available for start-up companies, leveraged buyouts or exotic debt instruments. Once the climate changes,

the risk-averse revert to type, and a two-tier market develops. Traditional investments become much more attractive than risky ones. This process has unwind in the debt markets over the past two months, but it has affected equity markets only to a limited extent. US investors have retreated from some of their overseas positions, and money for initial public offerings have dried up. But within the secondary markets for stocks, there has not yet been the flight from risk that has taken place in bonds.

That may not materialise. But we can be sure of an end to one other damaging aspect of the boom: credibility. In every sustained upswing, a climate emerges in which successful stock promoters are able to achieve the late 20th century equivalent of selling the Brooklyn Bridge. They come to believe in the concept of the risk-free investment, one that makes money whenever price moves. Here the phrase "hedge fund" is particularly

harmful, since it implicitly promises hedged positions of this sort.

Many of the biggest financial disasters stem from the belief that an investment is risk-free. Barings in London, for example, paid insufficient attention to Nick Leeson's activities in Singapore because it believed he was making risk-free bets. Long-Term Capital Management leveraged its capital so hugely because it - and its lenders - believed it was operating in a risk-free way, with fully hedged positions that allowed it to profit from small fluctuations in prices.

At least the big "macro" players, like Mr Soros and the Tiger funds, encourage no such illusions. They are explicitly taking bets that prices will move in their direction. This limits the scale of borrowing that such funds want or can get, reducing the exposure to them of the rest of the financial system. We should not worry, surely, if their investors lose money on a much bigger scale than they have already done.

Indeed, the chastening of the big macro funds is probably a net gain for world financial stability. This is because one of their techniques is to profit from "brittle" situations, in which the scale of the capital they deploy can be used to force a one-way change in prices, such as the devaluation of a pegged exchange rate.

One solution to this risk is for governments to avoid unsustainable policies. Another is the sort of transparency that the Group of Seven leading industrial nations is urging. But the most effective one is simply pain, for hedge fund investors and managers, when risky bets - against the yen, against the Hong Kong dollar, in favour of Russian debt - go wrong.

More traditional investors should beware of feeling smug, however, until they have inspected their own portfolios. Hedge funds may have some unique techniques, but there is nothing unique about the appetite for risk and the underlying investment assumptions for which they are now paying the price.

peter.martin@FT.com



COMMENT & ANALYSIS

LETTERS TO THE EDITOR

ECB too wedded to orthodoxy to heed advice on loosening reins

From Mr Peter Robinson

Sir, In his article "Europe's tug-of-war" (October 28), Martin Wolf argued clearly why the European Central Bank should respond to the current world economic slowdown by loosening the monetary reins.

It is worth trying to understand why the ECB seems likely to reject such sound advice. I think it seriously believes that there is no room for further expansion in Euro-11 economies.

Another institution wedded to economic orthodoxy, the Organisation for Economic Co-operation and Development, has published estimates of the natural rate of unemployment, below which inflation will accelerate, for all the industrialised countries. The weighted average for the Euro-11 is 11 per cent. The actual rate of unemployment for the Euro-11 in August 1998 was 11.1 per cent.

So, according to this reasoning, there is no room for monetary policy to bring about any reduction in unemployment without higher inflation.

Sensible people may want to question this. But I suspect the ECB believes it implicitly.

Peter Robinson, senior economist, Institute for Public Policy Research, 30-32 Southampton Street, London WC2E 7RA, UK

Tinkering with interest rates unconvincing

From Mr Duncan Beanan

Sir, The clamour to reduce interest rates to stimulate domestic economic growth concentrates much attention on the behaviour of borrowers, as if they are the only members of society.

However, what often escapes comment, but further blunts the interest rate management's imprecise effectiveness as an economic tool, is the contrary effect on the holders of capital and individual savers.

The charging of interest is a zero sum game; that is, what the borrower pays the lender receives (tax aside). Changing the level of domestic interest rates can therefore not actually put money in, or take it out of circulation per se. However, the differing effect it has on differ-

ent groups of individuals does affect consumer spending.

People who receive interest rates have a much higher marginal propensity to spend than do people receiving wages and salaries alone. In effect, with a drop in savers' interest rates, virtually all of the reduction in the interest income is taken out of circulation in the economy.

On the other hand, much of the reduced interest rate cost to highly geared individuals simply goes to increase the rate at which they return capital on their mortgage or other borrowings, rather than actually increasing their spending on goods and services.

I am unconvinced that minor tinkering with domes-

tic interest rates has the magical and clear effects on consumer spending in the economy that the pundits would have us believe. However, they are a barometer of sentiment which is all important.

A rise in interest rates has convinced us that there is a recession on the way (even though the figures do not yet support that speculation).

And lowering them will convince people that something is being done.

It is a pity that, nowadays,

commentators seem blind to what else could be done too.

Duncan Beanan, "The Leamagh", Clenagh Road, Sulby, Isle of Man IM7 3AD

Inflation might work for Japan, but consider the consequences

From Professor Ira Sohn

Sir, The unorthodox treatment - a powerful and substantial dose of inflation - prescribed by Paul Krugman ("Even worse than you think" October 27) to cure Japan's sick economy might be appropriate in a world of restricted capital flows. Alas, that is not today's reality.

While a policy of deliber-

ate inflation might, after some interval of time, reignite Japanese consumer spending, it would almost certainly and immediately cause a collapse of the yen, provoking a devaluation by China and possibly sparking a fresh round of currency devaluations in other developing countries. This, in turn, would trigger protec-

tionist policies in the US and other developed countries, unravelling 50 years of global trade co-operation.

Moreover, no responsible economist is arguing, as Prof Krugman asserts, that Japan's economy is limited only to "fixing its banks". In addition to comprehensive banking reform and higher

consumer spending, Japan needs powerful doses of institutional change and deregulation. These medicines seem to be permanently "out of stock".

Ira Sohn, professor of finance, Montclair State University, Upper Montclair, New Jersey 07043, US

Number One Southwark Bridge, London SE1 9HL

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PERSONAL VIEW ALEXEI BAYER

A swinging chancellor

There is no need to fear the new red-green coalition government in Germany. Schröder's victory represents a healthy move away from supply-side excesses

Ideological blinkers restrict the view of *laissez faire* economists, management consultants and politicians when they look at Germany. Too many of them think of it as an uncompetitive and restriction-ridden country which has just taken a step away from necessary free-market reform by voting in a leftwing coalition of Social Democrats and Greens led by Gerhard Schröder. The result, the argument goes, will be bad for Germans and others.

They are wrong. Germany is nothing like as inefficient as they believe. The likely changes will benefit most people. And the vote for Mr Schröder is not a narrow, specifically German failure of the will to make difficult reforms; rather, it is part of a broader reaction against supply-side changes that have gone too far in many western countries.

It is true that Germany has a vast and generous welfare system and a rigid regulatory environment. Its public sector consumes a large share of gross domestic product. It is the home of the world's most powerful industrial union, IG Metall.

But at the same time, western Germany has the highest productivity rate in Europe, and industrial productivity growth has been extremely high during the 1990s, as manufacturing jobs were slashed and output continued to increase.

Germany has a growing trade surplus, which may surpass \$100bn this year, and a healthy current account surplus measuring about 0.6-0.7 per cent of GDP. In the current worldwide economic crisis, even though nearly 15 per cent of its total exports go to recession-hit emerging markets, exports have continued to increase.

In an attempt to compete against Germany, other industrial economies in western Europe and North America have been forced into continuous currency depreciation. Since the mid-1980s, the French franc has lost more than 40 per cent of its value against the D-Mark, and the Italian lira more

than 80 per cent. The dollar and the pound have also done poorly. The German currency has emerged as a safe haven in the current unsettled financial environment.

Nevertheless, parts of the business press in the US and UK have greeted Mr Schröder's victory in Germany's general elections with some concern, fearing his Social Democratic party will hamper progress towards greater economic efficiency and slow some of the supply-side reforms pursued by Helmut Kohl, the former chancellor.

Under the previous administration, Germany appeared to be moving - albeit slowly and erratically - away from its traditional stakeholder economic system towards Anglo-Saxon shareholder-based principles. This involved placing greater reliance on capital markets rather than banking relationships, greater transparency in corporate accounts, and more ruthless cost-cutting in pursuit of shareholder value. Unions began to lose their membership, and nationwide wage settlements were sometimes disregarded.

The corporate changes seem well established and are unlikely to change. But other trends are reversing. The new red-green coalition has already proposed an energy tax, curbs on nuclear power and higher taxes on large companies. Emboldened trade unions are asking for wage rises in excess of 6 per cent next year.

Oskar Lafontaine, finance minister, has promised to loosen fiscal policy to stimulate domestic demand. Restructuring the tax system and labour markets is likely to be put on hold.

Clearly, lament free-market ideologues, Germany is losing a chance to achieve economic freedom and to employ productively its 40 million labour force.

Even if that were true, it would be worth asking whether this miracle is what the world really needs. More goods, more efficiently produced and sold at lower prices? Should one of the world's most successful exporters become even more competitive? Asia's depressed tiger economies probably doubt this. Their problems stem from the fact that they have acquired highly efficient productive assets for which the world economy does not generate sufficient demand.

But of course, the miracle of a drastically reformed Germany was far from being imminent. And if Germany is taking a step away from market purity, and boosting domestic demands and imports, then few exporters in the outside world are going to complain.

In part, the outside world's predicament is the result of supply-side reforms which swept industrial democracies over the past two decades. Industrial restructuring in the US and, to a lesser extent, western Europe, bol-

stered the competitiveness of already highly productive companies. It also put downward pressure on wages.

At the time when supply-side reforms were first implemented, they were sorely needed. It is less clear that they need to go any further now.

Contrary to postulates of the market ideology, supply-side liberalisation is not always inherently good: what matters in a healthily functioning economy is a balance between supply and demand. That balance was restored by the early 1990s; today it has become skewed against demand.

The role of the labour force is vital here. Labour is simultaneously an input and the consumer of the final product. In most industries, labour costs are the largest component of overall costs, and in industrial economics private consumption accounts for 60 to 70 per cent of gdp. Businesses looking to increase profits strive to cut labour costs, but by doing so reduce demand.

One extraordinary quality of free markets is how efficiently they regulate themselves. In the 20th century, democratic systems of government have played a vital part in this self-regulation. Indeed, some economists argue that the crisis among Asian-Pacific tigers has been exacerbated by the failure to supplement economic liberalism with democratisation and democratisation in the political arena.

Democracy is often criticised as weak and inefficient. Yet, recent political developments in the west show how smart voters really are. Just as in 1979-1980, when they elected conservative, pro-business, supply-side governments, voters have now returned into office leftist or centre-left governments everywhere in Europe and North America. Voters have used the ballot box to tell the politicians that the supply-side pendulum has swung too far. The election result in Germany is a big step in this direction.

The author is president of KAFAN FX, a New York-based business consultancy

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COMMENT & ANALYSIS

Sense and sensibility

Gordon Brown has to tread carefully to avoid tipping the UK economy into recession, says Robert Chote

When Gordon Brown delivers his pre-Budget statement on the economy to the House of Commons today, he must attempt a delicate balancing act. The chancellor must somehow respond to the sense of growing alarm among businesses and consumers. But he must do so without further undermining confidence and risking the economy into recession.

Getting this balance right is especially difficult with the economy at a turning point. Official statistics show growth in the third quarter was broadly based and only fractionally below its long-run trend rate of 2.25 per cent a year. But meanwhile the Confederation of British Industry's industrial trends survey shows confidence among manufacturers at an 18-year low, a reading that in the past has seen national output fall at a rate of about 4 per cent a year.

We are conscious, of course, that there is a balance of risks," Mr Brown told the CBI's annual conference in Birmingham yesterday. "The risk on the one hand of a sharper slowdown in the world economy, the risk on the other that inflationary pressures might persist."

The contrast between the relatively buoyant official data and the unrelentingly gloomy survey evidence will also weigh on the minds of the Bank of England's monetary policy committee, which takes its next vote on interest rates this Thursday. The minutes of its October meeting - at which rates were cut a quarter point to 7.25 per cent with two dissenters arguing for a half point cut - underlined the dilemma: "One argument was that more weight should be placed on the published data than the recent weakness of surveys - which might not persist... Another argument suggested that the case for an interest rate cut was clearer. The weakness in surveys during the past few months now seemed uniform, and the sharp deterioration in sentiment was confirmed by the Bank's regional agencies."

Confidence in the picture painted by the official data has been undermined in recent weeks by wholesale revisions to national accounts and average earnings figures. "The massive changes in the new national income data from the Office for National Statistics mean that the revised figures have acted rather like a gigantic avalanche sweeping down an Alpine valley that has erased what appeared to be many of the established features of the UK economic landscape," argues David Smith, economist at stockbrokers Williams de Bröe.

September's national accounts revisions included five far-reaching revisions, not to mention the usual tinkering that take place each year as fresh information from annual business surveys is incorporated into the data. The net result was to revise up the estimated cash value of economic activity last year by more than £15bn - a little under 2 per cent. According to the revised numbers, the last recession was shallower than it looked and the subsequent upturn stronger than it looked.

Whatever the overall arithmetic, the main victors are likely to be incumbent politicians. Where there is a close race, as in the New York senatorial face-off, local issues and personalities rather than Washington politics will determine the outcome.

A more realistic hope for the Republican leadership is the 60 Senate seats that would allow them to defeat Democrat filibustering. Untrammeled power in both legislative houses would firmly tip the balance against the president. Though Mr Clinton has not so far become a lame duck, such a scale of Republican gains could yet seal his fate.

Opinion polls show that voters rate the Lewinsky matter rather low in their list of priorities. Those who do see it as important are the arch-conservatives who would have voted Republican anyway. Indeed, an opinion poll for the Pew Research Centre, an independent political research group, shows there has been a significant shift in favour of Democrat candidates since mid-October, leaving voters far more evenly split.

This corresponds with an increase in Mr Clinton's personal ratings. The president has campaigned only selectively. But over the past two weeks he has done rather a good job, and this has boosted Democratic support.

US mid-terms

Today's elections will signal the extent to which Bill Clinton can get anything done in the remaining two years of his presidency. The results will not definitively establish whether Mr Clinton's legacy will include social security reform, trade diplomacy, and international leadership - along with scandal. But they will decide the mountain he must climb to achieve this.

The White House incumbent's party tends to do poorly in mid-terms. This time, the Republicans hoped the election would be seen as a referendum on Mr Clinton's behaviour. Only a few weeks ago, Republican strategists were confidently predicting sweeping GOP gains. But the mood has changed.

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Euro two-step

British industry and government ministers are moving closer together in their steady dance towards the euro. But the development of a vigorous centre-left economic consensus on the continent emphasises the need for a faster pace.

Yesterday, at the Confederation of British Industry's conference, Gerhard Schröder, Germany's new chancellor, warmly encouraged Britain to join the European single currency. Earlier, Gordon Brown, the UK chancellor, said that the government had "decisively and unambiguously put this country on a new road of constructive engagement with Europe". And he promised that in January he would publish a detailed plan of preparations for entry.

Meanwhile surveys, including one by the FT, suggest that a majority of businessmen, particularly in larger firms, are in favour of joining. And, as Mr Brown reported, twice as many companies are now making preparations for the euro as last year.

All this gives a welcome impression of progress. But, for all the government's warm words on the subject, it seems to be no nearer to setting a date, even as a general target.

Ministers have been hoping that pressure from the business sector will soften up public opinion towards joining. But despite the recent increase in momentum, many companies are still hanging back until they can be

sure that the government really does intend to lead the way.

Clearly, the government faces two genuine difficulties. Britain should not try to join the euro-zone until its economy has become more in step with those on the continent; and it cannot join unless the government is able to win a referendum.

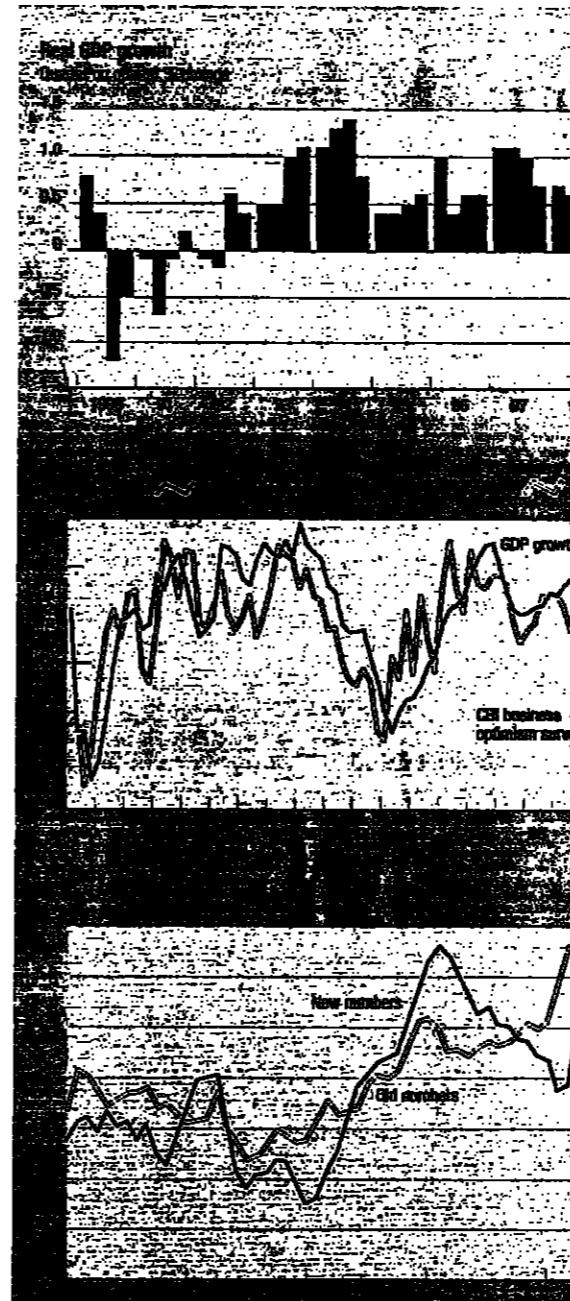
But a conditional target date could still be set, and if this were done soon, it would bring four benefits. First, it might help towards winning a referendum. Second, it would probably encourage a market convergence of interest rates and might help the pound to move towards a sustainable parity with the euro.

Third, it would give industry a clear focus for the preparations which must now begin, if Britain is not to be left drifting outside by default.

Fourth, and most important, Britain's voice would carry more weight in the debate which now begins over the relative power of the European Central Bank and the committee of eurozone finance ministers.

Mr Schröder's attack on the Bundesbank this weekend - for neglecting the importance of economic growth - suggests there may be big battles to come over the ECB, as France and Italy line up with Germany. If constructive engagement means anything, it means that Britain, too, must be at the centre of this argument. Naming a date would be the best way to get there.

Carpenter is now seen on Wall Street as a "chairman" for the new combined corporate



put gap are "the critical variables needed to forecast future inflation". In setting interest rates, the committee aims to deliver inflation of 2.5 per cent approximately two years ahead.

Other things being equal, the upward revision to economic activity would take it further above its sustainable level and thereby increase the perceived threat of inflation. But much of the revision reflects a belief that investment has been greater in recent years than original estimates suggested. Stronger capital spending means the economy might have more spare capacity, allowing it to sustain a higher level of activity without running into inflationary bottlenecks.

The Treasury sets out its latest view on the output gap in *Delivering Economic Stability: Lessons from Macroeconomic Policy Experience*, released today ahead of its pre-budget statement. Its best guess is that economic activity (measured excluding North Sea oil and gas production) climbed to 1 per cent above its sustainable level in the first quarter of this year, since modest below-trend growth has reduced the output gap to 0.25 per cent above potential. With growth pencilled in at 1 per cent for 1999, this will take activity steadily below its sustainable level through next year.

The Treasury and most members of the MPC agree that the

economy needs to run below full capacity for a while to reduce domestic inflationary pressures. This is necessary so that inflation overall will be on target when the temporarily beneficial impact of sterling's strength in reducing import prices has washed out.

Three questions remain to be answered: Is the Treasury correct in its assessment of recent trends in the output gap? What does this imply for the extent to which

"Booms are stronger, and recessions are deeper, than the economists expect"

economy must spend time operating below its full potential? Does what the chancellor does as a "necessary slowdown" demand a recession?

The size of the output gap is uncertain at the best of times and especially in the wake of national accounting revisions as far-reaching as those introduced in September. Under such circumstances it is useful to find a cross-check. A logical place to look is the labour market, where the difference between the unem-

ployment rate and its so-called "natural rate" is analogous to the difference between the actual level of economic activity and its sustainable (or potential) level.

In recent months the Bank of England has placed considerable emphasis on labour market conditions, arguing that average earnings growth of 4.5 per cent a year is consistent with the 2.5 per cent inflation target plus 2 per cent a year in underlying productivity.

But here again official statistics raise more questions than they answer. In recent weeks earnings growth estimates have been revised sharply upwards, then sharply downwards, prompting criticism from the Treasury and the Bank which culminated in yesterday's announcement that the data series is being revised pending investigation.

If the earnings data cannot tell us anything useful, what about the unemployment figures? The benefit claimant measure has fallen from 4.9 per cent of the workforce to 4.6 per cent during the course of this year, while the survey measure used for international comparisons has dropped from 6.5 to 6.3 per cent. With both falling or stabilising at best, neither provides much support for the Treasury's claim that the output gap has narrowed. David Walton, at Goldman Sachs, argues that activity has been about 1.5 per cent above its sustainable level all year.

OBSERVER

Second chance for the Kidder kid

Amid the ashes of careers at Citigroup, there's one phoenix.

Michael Carpenter rises from the former Travelers Group's insurance operations to be joint head of the company's mammal corporate banking operations.

Carpenter is best known on Wall Street as the chief executive at Kidder Peabody who presided over that brokerage's collapse seven years ago.

Now he is going to replace people who are paying the price for the carnage wrought on Salomon Brothers' profits in the last few months. Jamie Dimon resigned at the weekend and his British co-chief executive Deryck Maughan was moved out of the firing line.

Apparently Carpenter has been anxious for a chance to show he learned from experience.

Kidder was already in desperate straits when he took over, and Carpenter is judged to have made valiant attempts to rescue it. As one headhunter put it: "You've got two people running for a job and one of them has been in that job before and took a bath but tried to work with the big egos, and the other guy's never given it a shot, who do you go with?"

Carpenter is now seen on Wall Street as a "chairman" for the new combined corporate

operations, who will consult with his co-head, the former Citibank Victor Menezes, who seems well placed in a race no one knew existed.

Until the weekend, Wall Street assumed that Dimon would eventually succeed as chief executive of Citigroup. Suddenly, it looks as if there might be a succession battle after all.

Two-wheeler deal

Bronk Hill Proprietary's new boss Paul Anderson breezed to Melbourne yesterday to run the rule over the drifting hulk that was once Australia's industrial flagship.

Chairman-elect Don Argus doesn't take over until next year, but Anderson's appointment suggests that he's already making his influence felt.

Appointing the Harley Davidson-loving American - who has an engineering degree from Washington University topped with a Stanford MBA - represents a cultural leap for BHP, whose top brass have mainly risen through the ranks, especially from the steel business.

Not that Anderson is a stranger to steel. His first job was with Ford, and he has spent most of his career with Houston-based PanEnergy, which merged with Duke Power of Charlotte, North Carolina, last year. But he took year out to be top finance man with Inland Steel.

Yesterday he told his new colleagues that he was not a complete stranger to BHP. He added the company to his investment portfolio last spring, just before the stock dived. He hung on in there and it's now up to him to ensure he recovers the loss.

There's much interest Down Under in how Anderson tackles BHP's union troubles. Anderson says he's from a blue-collar family and his father was a union man, so he's "comfortable with the union concept". Whether the unions will be comfortable with him remains to be seen.

Earnest Ernst

In the seven years since founding the Frankfurt corporate finance house that bears his name, Ernst von Freyberg's maxim has been:

"We won't call you, you call us." Among Germany's family-owned Mittelstand companies, business comes by word-of-mouth recommendation, so he never bothered with marketing.

Bon von Freyberg did deign to make a call when the time came to find a big outside investor. The result was the deal that brought in the UK investment bank Close Brothers as a majority shareholder.

As a self-made corporate adviser, von Freyberg has always marched to his own drum. After years of studying law, he quit a day after qualifying for the German bar. The magnet was a

job in New York as an analyst for Three Cities Research, the leveraged buy-out vehicle which invests on behalf of the super-rich Bemberg brewing family.

After three years, he returned to Germany in 1991 to found Freyberg Hambrus.

He says the new link will enable the firm to add to its team of four professionals. Any shares dangled about to attract the right stuff will have to come out of his own holding, but he's done that before - attracting joint managing partner Sandrine Rebut six years ago straight out of business school.

Von Freyberg says he has made another call - to the headhunters. The time has come to get some marketing expertise on board.

Mix and match

Mouline boss Pierre Blayau must be wishing football and food makers had more in common. The French household appliances group has been hit hard by the crisis in Russia and looks set to fall back into the red. But the fortunes of Stade Rennais, the Brittany-based football club Blayau has been chairman of since the start of the season, could hardly be better.

The team is third in the French first division, behind only the big city clubs of Marseilles and Bordeaux. Seems like Blayau has found the right blend there.

But if the Treasury is right about the output gap having almost closed, the implication is that the economy does not need a severe slowdown - let alone a full-blown recession - to hit the inflation target. This in turn suggests that the MPC can continue to edge interest rates downward, although heaven forfend that anyone should think that the chancellor was trying to exert undue influence on them.

The Treasury's view of the output gap also implies that the government's fiscal position is better than some commentators have suggested. This is because the figures are not being flattered by unsustainably strong tax revenues or unsustainably low social security payments. The Treasury will argue in today's pre-Budget statement that its fiscal targets are achievable - just - even if economic activity is 1 per cent further above potential. The National Institute of Economic and Social Research warned yesterday that the government would miss its "golden rule" (under which it can borrow only to finance investment) over the next few years, but Treasury officials believe it is unduly pessimistic about tax revenues.

So where does the economy go from here? If the business and consumer surveys are any guide, then the answer is sharply downwards. Manufacturing has been labouring under the impact of a strong pound for two years, only for the Asian financial crisis to expose overcapacity on a global scale. This suggests that if manufacturers are continuing to step up production, the output is piling up on store shelves.

CBI surveys show that the number of manufacturers reporting excess stocks has risen sharply over the summer, as production has remained robust in the face of weaker orders. In previous cycles it has been attempts to eliminate inventory overhangs that have pushed the economy into negative territory. Manufacturing may account for a relatively small share of the total economy, but business surveys show that other sectors are suffering too. Treasury officials are resigned to a difficult winter as the stock adjustment takes place.

The world economy remains an important uncertainty overhanging prospects for the UK. For now it looks as though investors are gradually regaining some appetite for risk, which may ward off fears of a "credit crunch". But chances of a further upset - notably in Latin America - remain far from negligible.

In the face of this unpromising short-term prognosis, the chancellor's underlying message today will be: "Don't panic". He will point out that monetary and fiscal policymakers have responded more quickly both to inflationary pressures and to signs of a slowdown than in past cycles. He will also point out that although growth in incomes and profits may slow, consumer and business balance sheets are in much better shape than they were in the run-up to past recessions. The slowdown need not be dramatic and the Bank can continue to cut interest rates.

But given the uncertainty about the size of the output gap, the chancellor would be wise to ponder some words written in 1980 by Sir Alan Budd, former Treasury chief economist and now on the monetary policy committee: "It is sensible to remember that economic forecasters rarely predict the amplitude of the cycle. Booms are stronger, and recessions are deeper, than the economists expect."

Financial Times
100 years ago

A Quarrel in Toronto
The City of Toronto appears to be unfortunate with one of its leading tenants. The Canadian Pacific Railway in 1892 covenanted to pay the Corporation \$11,000 per annum for the water-front site. But although the railway has long since been in possession of the property, the City has received no rent. The Company at first declined to part with its money because it did not consider the title to the property satisfactory. Not long ago the City managed to remove this difficulty, but the Company still defers payment until it is settled whether it is liable for taxation under the lease. There seems every prospect of a pretty little lawsuit.

50 years ago

More Employed in Canada
Montreal, Nov. 2. Widespread though generally moderate increases in employment in manufacturing industries throughout Canada are noted by the Bureau of Statistics, reviewing conditions in 1947, when employment reached an "all-time high level." The index of eight major divisions of industrial employment rose 8.5 per cent, and the index of weekly payrolls rose 21.2 per cent.

MES
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FINANCIAL TIMES SURVEY

DENMARK

MONDAY NOVEMBER 30 1998

Annual country review

Northern star on edge of EU firmament

Public scepticism has prevented a sign up to the euro-zone but the danger, says Tim Burt, is that the nation will not emerge from a position shadowing the Emu in such good economic health

The small kingdom of Denmark, squeezed between Germany to the south and its larger Nordic neighbours to the north, is preparing to carve a "third way" relationship with the European Union.

Unlike the euro-friendly administrations of nearby Bonn and Helsinki, the Danish government will not be embracing European economic and monetary union next year. Nor will it follow Sweden's example by abstaining from the project altogether.

In spite of securing an opt-out from the Maastricht treaty in 1992 – prime minister Poul Nyrup Rasmussen realises that the issue of euro membership cannot be put to the vote until he can be reasonably sure of a solid "yes" in favour. Recent opinion polls, while suggesting a growing appetite for the euro, indicate it would be too risky to hold a referendum now.

"I was in favour of Emu when the Maastricht treaty was signed but now we must respect our opt-out – we first have to show the majority that the euro would be of benefit to Denmark," he says.

That half-way house is hardly a satisfactory position in which to begin the new millennium, particularly given that membership of ERM-2 will rid the government of Maastricht criteria.

In practical terms, Denmark will be a shadow participant in the single currency – with all the obligations that entails but none of the influence of fully-fledged members.

Mr Nyrup Rasmussen, therefore, has ruled out a euro referendum for at least two years. Although he does not admit it directly, the prime minister believes that

gives him a breathing space in which to convince Danish euro-sceptics that the single currency will be a good thing.

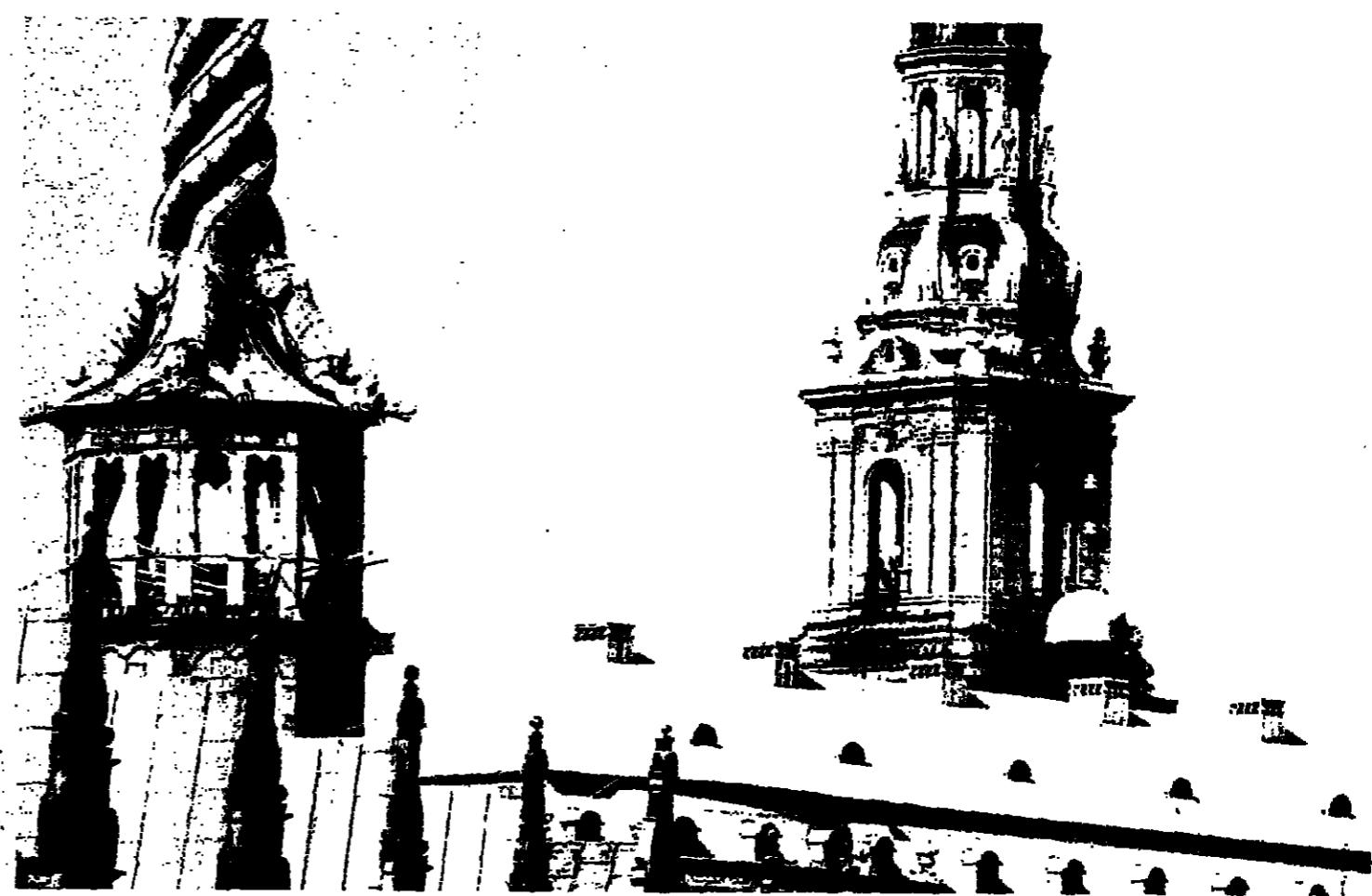
He aims to do so by maintaining a stable economy, combining modest interest rates, low inflation and solid growth.

Over the past five years, Denmark has achieved just that, with GDP growth averaging 3 per cent a year and inflation at less than 2 per cent. There is a surplus on the government budget – thanks mainly to privatisation receipts – and unemployment is down sharply.

So far, so good. But in the past six months, the economic outlook has become much more uncertain. Public consumption has grown too fast, while excessive wage settlements have hurt Danish competitiveness.

At the same time, the current account has moved into deficit and is unlikely to return to surplus before 2000. A strong krone – currently pegged to the D-mark – has also hurt exports and buoyant domestic demand has further undermined the balance of payments.

In the absence of wage moderation and with monetary policy aimed solely at currency stability, the government has to rely on fiscal policy to manage demand.



Sten March

The government has reacted by seeking a fiscal tightening in its 1999 budget. In spite of the coalition's precarious hold on parliament – where it controls 70 of the 179 seats – it has won broad acceptance for measures aimed at preventing over-heating.

The final outcome of the budget negotiations, completed last week, should build on the fiscal tightening announced in the spring which was designed to cut the GDP growth rate from 2.5 per cent this year to 1.8 per cent in 1999.

In recent years, however, the final budget package has not been as tight as initially planned, with local authorities proving reluctant to cut public spending.

According to analysts at JP Morgan: "The lesson from the Danish experience is clear: despite the best will in the world, it is very difficult to tighten fiscal policy sufficiently to moderate a boom."

Any failure to tighten fiscal policy sufficiently now could lead to a harder landing two years from now, just when Danes might be considering membership of the single currency.

In that scenario, with competitiveness weakening and a growing current account deficit, it would be very difficult for Mr Nyrup Rasmussen to secure the result he wants. Danish voters might use the poll as a vote of confidence in his handling of the economy, rather than a vote on Emu's merits.

All of which paints a gloomy picture. But Denmark is not on the brink of an Asian-style crisis – far from it. In spite of the current economic uncertainties, the economic fundamentals are mostly encouraging.

Inflation is not expected to top 1.7 per cent this year, while unemployment may fall to 5.5 per cent, compared with more than 12 per cent in the early 1990s.

The government, moreover, has adopted a more business-friendly stance: promising to cut corporation tax, reform labour regulations and introduce a low-tax regime for international holding companies.

Inward investment has also proved buoyant. Denmark last year showed the most significant increase in inward investment in the EU, rising 38 per cent to \$9.2bn Euros. It has also promoted the Oresund link, the bridge under construction between Denmark and Sweden, as a magnet for new technology companies, particularly in the telecommunications sector.

Meanwhile, the government has fully endorsed plans by the Copenhagen stock exchange to pool its equity trading activities with Stockholm as a step towards a possible pan-Nordic market.

Mr Nyrup Rasmussen and his colleagues have also shown themselves open to privatisation, completing the disposal of Tele Denmark earlier this year and signal-

ling other deals in the future.

Certainly, all that suggests that the current Danish government is more enlightened than some of its Nordic neighbours – at least in its dealings with industry and markets.

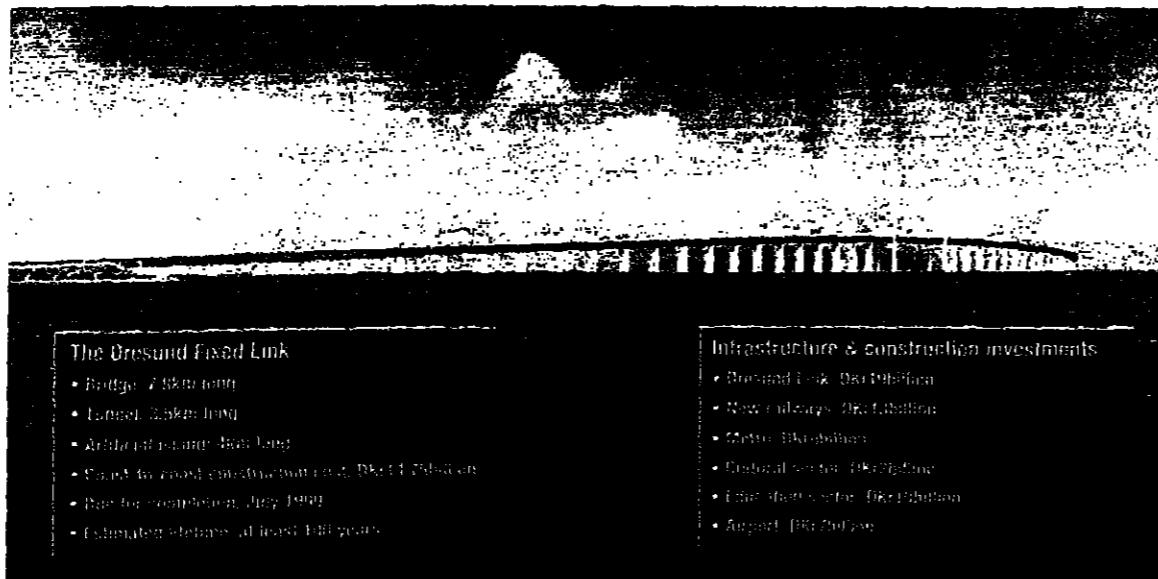
The challenge now is to ensure that last week's parliamentary approval for the government's budget package will genuinely cool the economy without damaging competitiveness or increasing the current account deficit.

Mr Nyrup Rasmussen says he is well aware of the task ahead. "We are in a landscape where all the political parties want to be measured on their ability to get results – I am sure we can deliver."

INFRASTRUCTURE by Clare MacCarthy

Economic engineering

The Oresund fixed link will invigorate communities on both sides of the Sound



The Oresund Fixed Link

- Bridge 7.8km long
- Tunnel 13.5km long
- Artificial island 500m long
- Cost to avoid construction of Øresund bridge
- Due for completion July 1999
- Estimated lifetime at least 100 years

Infrastructure & construction investments

- Oresund link, 1st edition
- New railway, 1st edition
- Metro, 1st edition
- Residential sector, 1st edition
- Financial sector, 1st edition
- August 1998 edition

Sven Landellius, chief executive of the Swedish-Danish consortium charged with planning, building, financing, owning and operating a permanent link across the Sound between the two countries, has good reason to be cheerful. The massive project he is overseeing – the creation of a traffic facility incorporating a dual-track railway and a four-lane motorway linking Copenhagen and Malmö – is proceeding according to plan and from July next year an estimated 10,000 vehicles will travel it daily.

Mr Landellius, who lives in Lund on the Swedish side and works four days a week at the consortium's Copenhagen headquarters, is one of the commuters for whom the fixed link will make life a whole lot easier.

Doubts need only think back to the winter of 1988, which was particularly harsh in this part of Scandinavia. The hovercrafts which ply the Sound often could not deal with the ice floes and commuters spent up to three hours crossing the 16km stretch of water instead of their usual 1 hour and 35 minutes. It was absolutely horrible. When the fixed link opens Mr Landellius will be able to get from home to work in just 45 minutes.

The fixed link project has four main components: an artificial peninsula off the

Danish coast, a 3.5km tunnel, an artificial island a little more than 4km long and a 7.8km bridge incorporating one high bridge and two lower approach bridges.

Getting it all together is an impressive engineering feat and an aerial view of the bridge stretching its long arm towards the Danish coastline captures the enormity of the project. Mr Landellius, who is convinced the link will be a tremendous catalyst for regional progress, says it is about much more than concrete and pylons.

"We're building a lot more bridges than just the physical one in our project," he says. "Besides benefiting the few commuters who today live on one side of the Sound and work on the other, the fixed link is intended to be a massive boost to economic and cultural ties across the region."

By facilitating the link, and other significant infrastructure projects, the governments of both countries hope to create a dynamic zone integrating Danes and Swedes at the gateway to the Baltic.

Copenhagen and its hinterland has a population of around 1.8m and, together with the 700,000 thousand people close by on the other side of the Sound, the region has some 2.5m inhabitants, ranking it 27th of Europe's top metropolitan centres.

Navigating the Nordic latitudes



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ECONOMY by Tim Burt

DENMARK 2

Actions speak louder

Enacting the policies required to maintain a spectacular performance will prove difficult

For the past five years, Denmark has proclaimed itself one of the strongest economies in Europe.

It has enjoyed a heady cocktail of modest interest rates, low inflation, falling unemployment and average annual GDP growth of 3 per cent. The surplus on general government finances is expected to increase to 1 per cent of GDP this year and to more than 2 per cent in 1999.

But, in recent months, the economy has begun to show signs of strain. And although the Danish economy is not heading for a hard landing, some tough medicine may be required to improve competitiveness and return the current account to surplus.

The left-of-centre coalition has proposed a fiscal tightening to damp Denmark's rampant private consumption and to stimulate investment growth. That is to be welcomed. Last week, the coalition reached a six-party deal on the 1998 budget, including wide-ranging labour market reforms, such as a reduction in unemployment insurance and a stricter benefits system.

A mixture of deferred spending plans, extra taxes on the energy sector and a slow down in the international economy should help reduce GDP growth from 3.25 per cent last year to 1.25 per cent in 1999.

But the danger remains that the government will be forced to compromise on reforms aimed at preventing overheating in the economy and that public consumption and wages will continue to grow too fast.

At the same time, the worrisome current account deficit - projected at around 1 per cent of GDP for 1999 - could widen if nothing is done to improve the competitiveness of Danish industry. Interest rate spreads could also grow in response to international financial turmoil, while a euro-pegged krone might not help Danish exporters.

Mogens Lykketoft, the country's finance minister, is well aware of the challenges ahead. "On the

demand side we realise we have to reduce growth after a long period of higher growth than in the rest of Europe," he says. "We want labour market reform, to maintain a balance of payments surplus and to seek wage moderation."

Most economists applaud that mission but caution that it is easier said than done - particularly given the government's fragile parliamentary position and its obligations to leftist supporters in the public sector and union movement.

The government is also reluctant to endorse measures which could undermine its record on unemployment, which has been reduced from 12 per cent in 1993 to 6.5 per cent today.

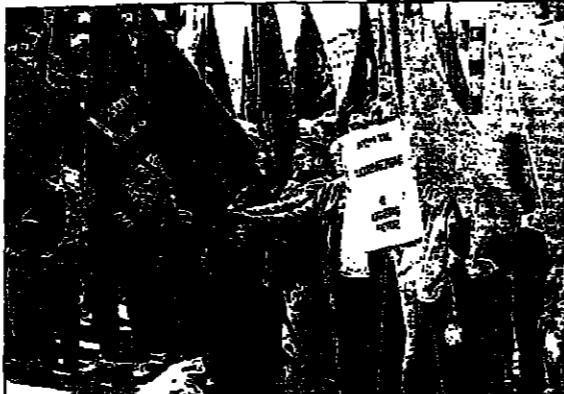
Its task will be made more difficult by the loss of influence in key areas of economic management. Denmark's decision to join ERM-2, the waiting room for membership of the euro, will effectively remove monetary policy as a tool for regulating consumer demand.

Given that most of the country's industrial workforce is locked into a two-year wage deal, agreed following a damaging labour dispute this year, wage moderation also cannot be relied on to prevent overheating.

"The only thing left is fiscal measures and the government's track record there has not been so impressive," says Jorgen Birger Christensen, chief economist at Den Danske Bank. "They have made great strides in creating employment but at the expense of the current account surplus."

The long-term danger for the government is that the increase in employment has been achieved largely by shrinking the size of the workforce, through early retirement schemes and state-subsidised sabbaticals.

The costs of such schemes will not ease, particularly with an ageing population. And employers are still being hurt by excessive wage agreements. Wage costs in the third quarter rose about



Red flag: striking workers won two-year wage deals

5 per cent, compared with 1 to 2 per cent in Germany.

"There is a threat of overheating," says Klaus Rasmussen, senior economist at the Confederation of Danish Industries. "Inflation is low and our members cannot increase prices without losing market share; there is a widespread skills shortage and competitiveness is decreasing."

But the finance ministry

maintains that the employers are overstating the problems. Denmark's economic prospects are less buoyant than a year ago but ministry officials argue the outlook does not justify a radical overhaul of the economy.

"The employers have argued for years that the only effective change is to reduce the level of unemployment benefits," says Mr Lykketoft. "That is something we will not do."

That is a purely political

stance but it remains a matter of concern that the government is prepared to put such electoral expediency ahead of the economic requirements. It may also be a dangerous position to take if the government can pull off the trick of maintaining low inflation and interest rates without hurting industrial competitiveness, then a small current account deficit may be an acceptable price to pay. It would certainly prove worthwhile if it persuades Danes to sign up to the single currency.

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Ecu. Denmark was way

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POLITICS by Clare MacCarthy

Treading on eggshells

Returned to power after 10 years in opposition the government rests precariously on the support of leftist parties

Danish prime minister Poul Nyrup Rasmussen is in a difficult position.

On the one hand, he has been credited with returning his Social Democratic Party to power in 1983 after a decade in opposition. Against the odds, he has also managed to keep them in government since.

But, on the other hand, Mr Nyrup Rasmussen is the politician under whose leadership the Social Democrats have experienced a dangerous decline in popularity.

Arguably the predominant force in Danish politics this century, and the biggest vote-catcher in every general

election of the past 45 years, this autumn the Social Democrats have suffered the indignity of being overtaken in the opinion polls by the opposition Liberal Party.

Whether this shift is a decisive turning point or just a temporary reversal in fortune remains to be seen. But one thing is certain - Mr Nyrup Rasmussen, on the brink of his sixth year at the helm, will have to be more cautious than ever in balancing his desire to revitalise the welfare state so as not to alienate those rank-and-file Social Democrats who find many of his initiatives unpalatable.

THE EURO by Tim Burt

The last piece of the jigsaw

With the convergence criteria met, public opinion is barring participation in Eru

When Yves-Thibault de Silguy addressed a Copenhagen conference earlier this month, the European Union commissioner for financial and monetary affairs warned that Denmark was adopting a risky strategy by abstaining from European economic and monetary union.

Mr de Silguy applauded the Danish government for committing the krone to ERM-2, the successor to the European exchange rate mechanism. But he suggested that failure to fully embrace the single currency would lead to a loss of influence for the Scandinavian kingdom.

Setting out a worst-case scenario, he added: "To benefit fully from the advantages the euro will bring, certain companies may be tempted to leave Denmark or not set up there."

The commissioner also predicted that Danish interest rates might have to rise to maintain the krone within the 2.5 per cent ERM-band endorsed by the government.

Mr de Silguy was right to point out the economic risks of Denmark's non-participation in the euro. But there are strong political arguments for the Danish government's agnostic approach to the single currency.

Poul Nyrup Rasmussen, the Danish prime minister, has ruled out a referendum on participation in the euro for at least two years because he knows that - whatever the economic benefits of euro membership - Danish voters remain deeply divided over the issue.

Although recent opinion polls have reflected growing public enthusiasm for the project, the margin in favour is too thin to risk a referendum in the near future.

Mr Nyrup Rasmussen does not want to put the issue to the vote until he can be reasonably sure of a solid "yes". Given that Danes rejected the Maastricht treaty in 1992 - only to accept it in a second referendum a year later - it would be politically unwise to hold a referendum before the euro can be shown to work.

"I do not foresee a referendum in the next two to three years," says Mr Nyrup Rasmussen. "First, we have to show to the majority of people that it would be of benefit to Denmark."

He is also well aware of referendum fatigue in Denmark, which has held four EU polls in 12 years - culminating in May's vote in support of the Amsterdam treaty.

"We do not want to introduce any pressure to the timing on a referendum first we have to create the basis in the public mind for such a referendum to take place," he says.

Although Denmark has made clear its aversion to joining the single currency in the first wave, it will be a shadow member of the euro in all practical terms.

The constraints of ERM-2 will effectively mean that monetary policy in future will be used solely to maintain the krone within its currency band. Moreover, the government has committed itself to continuing to meet all the convergence criteria set out in the Maastricht treaty.

Mogens Lykketoft, the Danish finance minister, admits that this policy leaves little room for manoeuvre. But he maintains that this is nothing new for Denmark as the krone has been pegged to the D-mark for many years.

Mr Nyrup Rasmussen was returned to power by the slimmest of margins in the general election in March this year. Of the 179 seats in the Folketing, the parliament, the minority coalition government of Social Democrats and Social Liberals commands just 70.

Mr Nyrup Rasmussen's hold on office was secured with the support of two small parties on the far left, the Socialist People's Party and the Unity List, a loose grouping largely comprising environmentalists and former communists.

While these parties boasting 18 Folketing seats between them, do not pull any punches when they feel the need to criticise the government, neither has so far had the stomach to topple a Social Democratic administration and allow the non-socialist opposition to assume leadership once more.

Mr Nyrup Rasmussen's tenuous hold on power is also dependent on two of the four parliamentary seats returned by voters in the semi-autonomous Danish territories of Greenland and the Faroe Islands.

The political allegiances of these four members are somewhat confused by local matters, not least Denmark's dispute with the Faroes over outstanding debts from the island's banking collapse in the early 1990s.

But Mr Nyrup Rasmussen is reasonably assured that two of them, at least, are unlikely to vote against him. It is often said that the most important attribute in Danish politics is the ability to count to 90 and parliamentary support, or non-opposition to be more precise, for the latest Nyrup Rasmussen administration amounts to exactly this figure, putting it one seat ahead of the right-wing opposition.

But the opinion polls tell a different story and a recent Gallup poll confirmed a trend which has held sway throughout the autumn - sufficient gains by the non-socialist opposition to assume power should a general election be held now.

This poll pegged voter support for the Social Democrats at 31 per cent, down from their 35.9 per cent showing in the March election, while the Liberals advanced to 31.1 per cent from 24 per cent.

Critics say the Social Democrats' fall from grace is the logical punishment for an unimaginative and ineffective government which has achieved little of substance in its five years in power.

But this is rather too harsh a judgment, for Mr Nyrup Rasmussen's achievements have not been insignificant. With 180,000 people brought off the dole queue and into jobs, the unemployment rate has dropped from 12.8 to 8.5 per cent.

Foreign debt has fallen to 21 per cent of GDP from 32 per cent and a budget deficit has been transformed into an estimated DKK11.3bn surplus in 1998.

In economic terms, the Social Democrats trumpeted their achievement in reducing the tax burden on the lowest earners, abolishing wealth tax, introducing green taxes, establishing thousands of new kindergartens and giving families with young children the statutory right to extra time off work.

Despite all this, they still lag in the opinion polls.

Mr Nyrup Rasmussen argues that it is normal for Danish governments to experience a post-election popularity dip and that unpopular but necessary initiatives, such as the Whitsum austerity package, will feed through to the ratings.

But developments on the other side of the political spectrum have also been at play. The Conservative Party, in power for a decade under the tutelage of Poul Schiltz, is in tatters following scandals caused by drink-driving leaders and an internecine and very public leadership battle.

The upshot was a haemorrhage of voters away from the once-pride Conservatives. Many have sought a home in the parties of the extreme right but others have taken the politically smaller step into the arms of the Liberal Party, with whom the Conservatives shared office during their 10 glory years.

As for the Liberals, they are on a roll. Under a new leader, Anders Fogh Rasmussen, who succeeded Uffe Ellemann-Jensen after the March election, the Liberals have been busy reinventing themselves and expanding their political bailiwick into the territory held by the small centrist parties, the traditional kingmakers of Danish politics.

Symbolic gestures, such as

Mr Fogh Rasmussen's meeting with trade union bosses in October, have boosted the Liberals' ratings and enhanced their prospects of being the senior partner in Denmark's next government.

The Liberals also have a strong card in Mr Fogh Rasmussen himself. While his predecessor was a darling of

the international media and a giant force on the domestic political stage, his uncompromising style proved a

barrier to getting the Liberals back into power.

Since Mr Fogh Rasmussen was ridiculed for his pretentious whine about Social Democratic profligacy, his style has become more balanced and mature.

In contrast, Mr Nyrup Rasmussen is handicapped by his own public image. A genial, articulate and self-assured man in small gatherings, the prime minister lacks the gregariousness and media presence which could make him look better on a wider stage.

This, combined with increasing rumblings of discontent at grassroots level, could prove to be his undoing.



Even handed: Nyrup Rasmussen is walking a tight-rope

Investment Banking with a Nordic focus

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as the joint holding company,
with group assets of more than

DKK 530,000,000,000,- of



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October 1998

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DENMARK 4

Egalitarian but exclusive, confident but conservative, brilliant but boring

After 26 years as the FT's correspondent in Copenhagen, Hilary Barnes airs his prejudices about a country long on virtue but a little lacking in vitality

A is for ... Auken, Svend, minister for environment and energy. Gifted and entertaining politician. Will go down in history as 'Beer Bottle Auken' for quixotic battle with the EU to maintain the Danish ban on sale of beer in cans.

B is for ... Bohr, Niels, late humanist and physicist, discovered the structure of the atom. Personal choice as the greatest Dane of the century.

C is for ... cycle paths, thousands of kilometres of them, which make Denmark a paradise for cyclists. Policy implemented in 1940s and 1950s, before it was too late. We others can only regret our lack of foresight.

D is for ... Danida, the Danish aid agency. Danes get top marks for good intentions, spending 1 per cent of GDP on aid. pity there are so few discernible results.

E is for ... Egalitarian. However measured - equality between sexes, between classes or by income - Denmark is one of the most egalitarian societies in the world. Lots of levelling down.

F is for ... Flag. The Dannebrog is flown everywhere at every opportunity by a people intensely proud of their country. A touch too much ethnocentrism, however, tends

to blinker Danes to qualities of other countries and cultures.

G is for ... Greenland. Bet you didn't know that the Kingdom of Denmark is the largest country, measured by landmass, in Europe.

H is for ... Honest, Harmonious and Homogenous - three qualities

which go far to explaining why Denmark consistently ranks top, or close to the top, in international quality-of-life surveys.

I is for ... Integrate. Immigrants are told they must. Many immigrants would like to but the Danes won't let them. The reason they don't? See T.

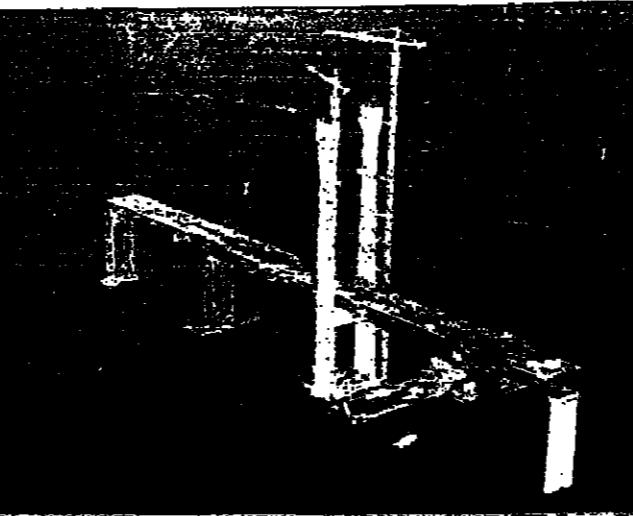
K is for ... Kitchen. Land of pork and potatoes but *sandwich* culture at its best can be a revelation, especially with quantities of snaps and beer to chisel it.

J is for ... Jantelov (Janet's Law). The greatest social sin a Dane can commit is to think he or she is someone. Closely associated with *hygge* (cosy social relations in a cosy atmosphere), which makes discussion, let alone argument, socially problematic and dullness a virtue.

L is for ... Lutheran State Church. "By faith, not acts", so anything (almost) goes. Favourite examples: the priest (male) who has been married six times and the woman priest who is a lesbian with a son born out of wedlock.

M is for ... Maersk Mc-Kinney Moller, controlling owner and business genius behind the growth of the A.P. Moller-Maersk shipping (and much else) group into what is arguably the world's premier all-round shipping business. Modestly, Mr Moller says all the credit goes to his father, the late A.P. Moller. Others dare to disagree.

N is for ... Nyrop Rasmussen, prime minister, leader of the Social Democratic



Party. Will go down in history as an above-average performer in this difficult job. At his best face-to-face: less impressive on television.

O is for ... Oresund, the straits separating Denmark from Sweden. With the building of a road-and-rail bridge between Copenhagen and Malmö, the Oresund region will become one of the fastest-growing city regions in Europe.

P is for ... Pig. The world's biggest pork exporter, thanks to the qualities of its agricultural producer co-operatives.

Q is for ... Queen Margrethe II, something of an intellectual and a gifted artist. With a flamboyant taste in hats, she has overcome a nervous disposition and beanstalk physique to earn the deepest admiration and respect of her subjects.

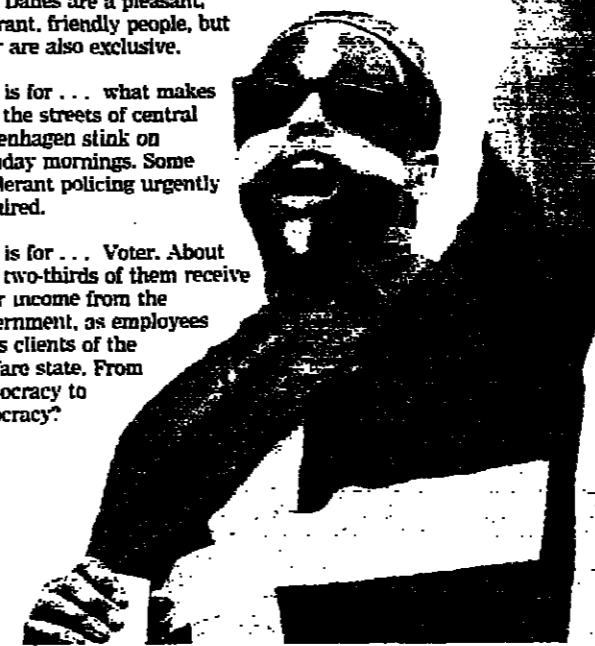
R is for ... Radical Party. Exasperating social-liberal, 5 per cent of the votes party with the influence of 40-percenter. Consistently holds balance between right and left-wing alternatives in the Folketing and is, therefore, king-maker extraordinary. Has prevented socialist and liberal excesses but its anti-militarist, neo-pacifist, Euro-critical attitudes have often driven Denmark's allies to distraction.

S is for ... Social Democrats. In government more often than not since 1929, they claim to be the makers of modern Denmark - and are arrogant about it. Some top Social Democrats make it plain that anyone who does not support them is suffering from an intellectual defect. I object.

T is for ... Tribe. The Danes are not so much a nation as a tribe, noted Sir James Melton, a former British ambassador to Denmark. An apt observation. The Danes are a pleasant, tolerant, friendly people, but they are also exclusive.

U is for ... what makes the streets of central Copenhagen stink on Monday mornings. Some intolerant policing urgently required.

V is for ... Voter. About two-thirds of them receive their income from the government, as employees or as clients of the welfare state. From democracy to taxocracy?



THE FINANCIAL TIMES SURVEY
LEGEND

A nation in
times of ch

Next Day

AGRICULTURE by Clare MacCarthy



Farmers face cull as lean times bite

With prices cut to the bone, the industry is calling for government relief

'Come watch me gas my piglets,' read the gruesome invitation to the press from a Danish pig farmer in October when plummeting pork prices made economic sense of butchering the little beasts at birth rather than lose more money by rearing and selling at a loss.

The farmer never actually carried out the threat, which caused a brief media sensation, but his invitation did serve to dramatically underline the plight of Danish

farmers with pricing pressures bringing many to the verge of bankruptcy.

The sector started losing heavily after pork prices plummeted to DKK6.20 a kilo in November from a high of DKK14.10 a kilo in March of last year. Industry specialists say that under current conditions, prices would have to be at least DKK8.50 per kilo just to allow farmers to keep their heads above water.

The price plunge, along with signals that other European countries were moving to help their own farmers, led a united Danish farming sector to issue a public plea for help to Prime Minister Poul Nyrop Rasmussen. The pig farmers say they are not asking for state handouts, rather, some temporary assistance, such as state guarantees for operating costs and a possible six-month moratorium on bank loan interest payments to help them over until the crisis settles.

But the government is having none of it. Agriculture Minister Henrik Dam Kristensen's response to the farmers' petition is that their problem is of their own making - excessive production has pressed prices lower and the only remedy is to let market forces engineer an output drop to a sustainable level.

Denmark farms produce more than 20m pigs per year, which means pigs outnumber people by about 4-to-1. There are about 20,000 pig producers in all, including part-time farmers, and although the number of producers has declined greatly in recent years, production has nearly doubled since 1970.

While this level of production made economic sense when world demand was buoyant, the economic chill blowing in from the east spelled misfortune for Danish pig farmers.

Although the EU countries, particularly Germany, the UK, France and Italy, are Denmark's principal markets for pigmeat and meat products, Russia, Japan, eastern Europe and the US are also significant. Danish agricultural exports to Russia, for example, plunged 31 per cent to DKK1.15m between July and August this year and the floating rouble, the Agricultural

Council of Denmark says, means the outlook is anything but good. Two-thirds of Danish exports to Russia are agricultural, amounting to DKK2.3bn in 1997, with foodstuffs and machines for the Russian agri-industry came to another DKK1.5bn last year.

Because Denmark is one of the world's leading exporters of pigmeat, dairy products and cheese, foreigners often make the mistaken assumption that agriculture is Denmark's biggest industry. But while it has long been surpassed as a currency earner by services and general industrial manufacturing, to underestimate the significance of farming in Danish society would be another mistake.

Agriculture brings in between DKK50 and DKK60 billion every year, it adds up to around 6 per cent of gross domestic product and the sector employs 230,000 people, or just less than one-tenth of Denmark's full-time employed labour force. Small wonder then that a downturn in the industry represents a significant threat to Denmark's trade balance.

Against the backdrop of the Asian and Russian recessions and the consequent decline in Danish agricultural exports, Klaus Bustrup, managing director of the Agricultural Council of Denmark, describes the export developments as extremely worrying. The statistics bear out his concern: the value of total agricultural exports dropped 6 per cent to DKK2.25bn in the first eight months of this year from the corresponding period one year earlier. Exports of pork alone fell by DKK2.7bn during the period.

Meanwhile, the nationwide industrial strike, which all but paralysed Denmark for 11 days in April and May this year, exposed how vulnerable the industry is to distribution breakdowns. Even though most agricultural employees were not directly involved in the strike, a crippled transport sector brought exports to a halt while severe overcrowding at poultry production units sparked widespread concern for animal welfare.

The nature of Christian Hansen's product range is another useful cushion against the vagaries of world economics. Mr Sorensen's company sells products which 500m people use

every day - even in a recession, people will eat.

Food ingredients manufactured by the company find their way into an amazing array of everyday products on supermarket shelves.

And enthusiasm is in plentiful supply at corporate headquarters in the woods at Horsholm, some 20km north of Copenhagen. Mr Sorensen, who took the helm at Christian Hansen in 1995, brought to the job the same zeal with which he treats his other pet passions - yacht racing and the history of US influence in East Asia between 1855 and the Korean War.

It is an approach which has kept the company - a developer and producer of natural food ingredients, biotechnological and allergy diagnostics and treatment products - on the ascent since and which, Mr Sorensen is confident, will ensure its success during the next millennium.

Christian Hansen Group, listed on the Copenhagen Stock Exchange, had a 1997-98 turnover of DKK3.1bn and pre-tax profits of DKK349m, a 12 per cent and 25 per cent advance, respectively, on the previous accounting year. The outlook for the 1998-99 fiscal year is also promising.

The company expects a 10 per cent increase in pre-tax profit to around DKK384m while sales are set to come in at around DKK3.4bn.

Consumer opposition to additives is a growing problem for food-processors worldwide but Christian Hansen's colours, Mr Sorensen points out, are all based on natural raw materials. Camperi, for example, gets its vibrant red hue thanks to cochineal, derived from an insect which lives on a certain type of Mexican cactus plant.

Another natural colour, an orange-yellow extracted from the seeds of the annatto bush, grown by Christian Hansen at a plantation on the Amazon estuary, finds its way into many world-famous brands of butter, margarine and mayonnaise.

Christian Hansen has about 3,000 workers on its payroll, with 1,000 in Denmark and 2,000 others across the globe. It has in excess of 20 production facilities outside Denmark which between them total around two-thirds of overall production.

Products, processes and markets have come a long way since the company's founder, Christian D.A. Hansen, a chemist, started the company in 1874 on the basis of a pioneering method to standardise rennet, the additive which

makes milk coagulate and turn into cheese.

Chymosin, an enzyme extracted from calves' stomachs, was the basis for early rennet production but, since then, Christian Hansen has developed a process to ferment coagulants which satisfy the demand for cheeses made in accordance with kosher, halal and vegetarian requirements.

Rennet remains the company's most important product and Christian Hansen has a 35 per cent share of the world market. However, a carefully-planned diversification process has brought Christian Hansen to prominence in new areas, ranging from natural colourings, through functional foods to frontier-breaking treatments to diagnose and cure human allergies.

ALK-Abelló is the Christian Hansen allergy treatment unit. Though still dwarfed by the food ingredients business in terms of sales and earnings, the potential is substantial and increasing daily.

Allergies are on the increase. Some 15 per cent of the world's population has some sort of allergy, twice as many as 20 years ago. Science has not yet provided an explanation for the growing incidence of asthma and lowered human resistance to allergens, such as housemites, dust, cats and insect bites, but Christian Hansen is at the front end of research in beating the effects.

Allergy vaccination is the buzzword of the moment. Traditional allergy treatments, such as antihistamines, only dampen the symptoms. Allergy vaccination, on the other hand, provides a cure for respiratory allergies and Christian Hansen has a 40 per cent share of a world market currently valued at \$250m. The company's investment in allergy treatment received a significant boost in May 1998, when the World Health Organisation officially recognised the benefits of allergy vaccination for such diseases as hay fever and asthma. With 50m people in Europe alone affected by allergies, WHO's imprimatur can only bode well for Christian Hansen's future.

Clare MacCarthy



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BELGIUM

TUESDAY NOVEMBER 3 1998

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Annual country review

A nation in the throes of change

Government parties are preparing for a stern test at the polls at a time when industry and the legal system adapt to change. Neil Buckley reports

Belgium stands on the brink of significant changes that are set to reshape it for the new millennium.

In national and regional politics, legal affairs, the economy, industry and finance, changes are under way or about to be set in train that could together add up to one of the largest shifts in the country's make-up since its creation in 1830.

Their changes are likely to recast Belgium as a more loosely bound federal state, at the same time more closely integrated economically with its neighbours than ever.

One key event will be the general election which must be held by next June. Voters are likely to penalise the Christian Democrat and Socialist parties that have dominated postwar politics for a series of scandals that have dogged their latest coalition.

The defining episode in recent Belgian history, the so-called Dutroux affair, returned to haunt the government in April. Belgium's most notorious criminal, Marc Dutroux, overcame police guards at the courtroom of Neuchâtel in southern Belgium and spent nearly four hours at large before being recaptured in the party wings.

All defendants deny wrongdoing, and the verdict is expected by the end of the year.

The electoral consequences of the scandals could be a change of government and the first coalition to include the centre-right Liberals for a decade, or even the first government led by a Liberal prime minister since that of Walther Frère-Orban in 1884.

The final composition of the government could become bound up with the outcome of another important event due to follow the election, a further round of

talks on constitutional change.

Successive rounds over 22 years have already transformed Belgium from a unitary state into a federal nation of three regions overlaid by three language communities.

The reason for next year's talks is that a 1988 financing agreement, whereby the federal government collects most taxes then redistributes them to the regions, is up for renegotiation. But the talks could lead to further devolution of power to the regions.

This will not be easy. Relations between communities have deteriorated recently, with a simmering dispute over language rights on the periphery of Brussels and regional leaders using increasingly nationalist rhetoric.

Alongside constitutional change, institutional shake-ups are planned. One beneficial result of the Dutroux escape was that it finally unlocked the way to the "Octopus" initiative, an eight-party agreement on legal reform.

Legislation is before parliament to create a single federal police force with a federal prosecutor's office co-ordinating nationwide investigations. A Supreme Council of Justice will appoint judges, ending their political appointment by local authorities.

In an opening-of-parliament address last month Mr Dehaene insisted the reforms would "respond to citizens' aspirations," restoring their battered faith in the legal system.

"They will adapt to the needs of contemporary society structures which will guarantee good running of the justice system, ensure citizens' legal security and contribute to maintaining safety and order," he said.

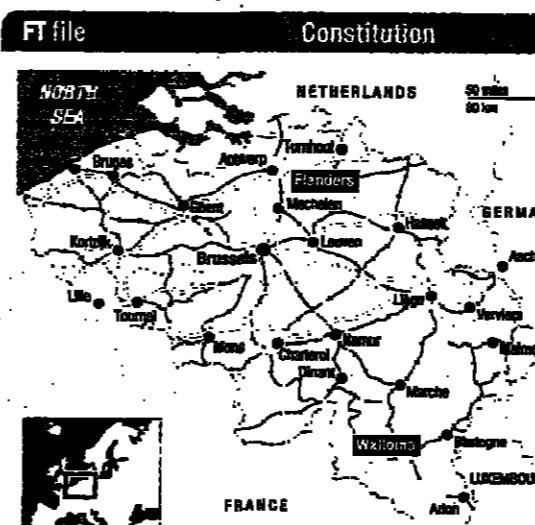
But the fact the reforms came so late, and were prompted by such tragic events, makes it difficult for the government to take full credit. Mr Dehaene prefers to concentrate on his economic record.

The government is piloting the Belgians safely into the European single currency, set for launch in less than two months. That will prove the most important legacy of the two Dehaene-led governments since 1991 and provide the biggest single change Belgians must confront.

"The government has pursued its policies consistently in spite of the sometimes exceptional and even dramatic circumstances in which it has had to work," says Mr Dehaene.

The goal of joining monetary union in the first wave seemed barely credible in 1991, when Belgium had a budget deficit more than twice the Maastricht treaty target of 3 per cent of gross domestic product, and crippling debt.

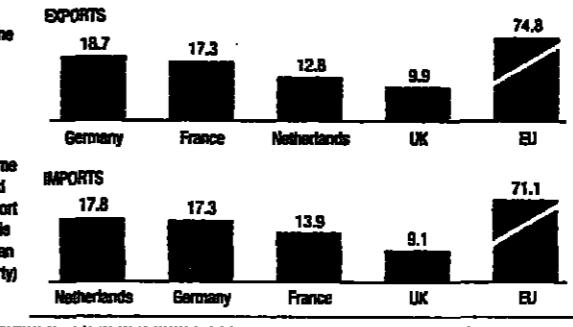
But years of austerity



	1998*	1997*
Total GDP (\$bn)	242.4	238.8
Real GDP growth (annual % change)	2.8	2.6
GDP per head (\$)	23,788	23,446
Inflation (annual % change in CPI)	1.2	1.4
Real wage growth (annual % change)	0.8	0.5
Industrial production (annual % change)	5.3	4.0
Unemployment rate ² (%)	8.8	8.4
3-month Pilar rate ³ (%)	3.7	4.3
General government financial balance ² (% of GDP)	-1.5	-1.3
Government debt (% of GDP)	118.0	114.8
Current account balance ⁴ (\$bn)	12.3	13.0
Exports ⁵ (\$bn)	145.0	159.2
Imports ⁵ (\$bn)	-138.0	-151.3
Trade balance ⁴ (\$bn)	7.1	7.9

* OECD standard. ** Maastricht definition. *** EU harmonised rate. **** Belgium-Luxembourg.

Male trading partners (share of total trade in world 1997, \$bn⁴)



* Forecast

- Official name: Kingdom of Belgium
- Form of state: Constitutional monarchy
- Federal legislature: Chamber of Representatives of 150 members directly elected by a system of proportional representation; Senate of 72 members, 40 directly elected, 31 indirectly elected or co-opted, and the heir to the throne
- Electoral system: Universal direct suffrage over the age of 18
- National elections: May 21 1998; next election due by June 1999
- Head of state: King Albert II ascended to the throne in August 1993
- National government: Council of Ministers headed by the prime minister (Jean-Luc Dehaene) appointed by king on basis of ability to gain support of Chamber of Representatives. There is currently a Christian Democratic (Christian People's Party and Christian Social Party) - Socialist coalition government

Sources: Economic Intelligence Unit; Deloitte & Touche

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But years of austerity

have seen the deficit fall to a forecast 1.3 per cent this year, with debt tumbling from 183 per cent of GDP in the early 1990s to 118 per cent this year. And, after the recession of the early 1990s, Belgium last year returned to healthy growth.

Although growth forecasts

for next year were revised

down from an original 2.8 to 2.4 per cent in the govern-

ment's budget last month

and the deteriorating inter-

national outlook, that still puts Belgium among the fastest-growing EU states.

The euro has also been

driven by

the Bel-20 index

of leading stocks in the past

year.

The roll-call includes

Société Générale de

Belgique, the legendary holding company that once con-

trolled a third of the Belgian

economy; Générale de

Banque, the biggest bank,

Banque Bruxelles Lambert,

third biggest, and Royale

Belge, second biggest

insurer.

But the battle to meet the

Maastricht criteria had cre-

ated a lasting climate of bud-

getary discipline, strong

enough to withstand any

redrawing of the country's

political map.

"When you have been the

economic sick man of

Europe, you don't forget

that," he said. "You might

rush to

it once, but you don't do

it twice."

national currency, Belgium's top seven banks and top three insurers have all been involved in alliances, takeovers or mergers.

The transfer out of Belgium of the decision-making centres of some of its biggest companies has sparked concern, especially after several factory closures by foreign-owned companies.

Renault, the French car maker, closed an assembly plant at Vilvoorde, north of Brussels, with the loss of 3,100 jobs last year, while Levi Strauss recently announced plans to close three jeans factories, cutting 1,000 jobs.

But some analysts say restructuring of Belgian business was long overdue. It involves a shift in corporate ownership away from dominance by sprawling holding companies, which some say hold back companies' development, towards a stock exchange-based capitalism.

The basic change this year is a reshuffling of ownership structures," says Peter Praet, chief economist at Générale de Banque.

"That doesn't just mean more French and Dutch and less Belgian, but a much broader change in the whole structure of ownership."

And the euro will ultimately prove an opportunity for Belgium and an important stabilising force, says Alfonso Verplaetse, the National Bank governor.

Belgium, he told the FT in an interview, had "lost its sense" for a while after the oil price shock of the 1970s, running up a 13 per cent budget deficit by 1981, and becoming "Europe's champion of public debt".

Last month's agreement to allow Usinor, the French steelmaker, to take over Cockerill-Sambre, inheritor of large parts of Belgium's once-mighty steel industry, takes to five the number of famous names that, thanks to takeovers, will have disappeared

THE ECONOMY by Quentin Peel

'Champions of public debt' see remarkable turnaround

The fact that exports to trouble-hit Asia are low has turned out to be a blessing

for the European Union as a whole. Belgium is an extraordinarily open economy, in trade terms, with imports and exports accounting for nearly 60 per cent of GDP, but three-quarters of all its exports went to other EU member-states. "In the long run, that may be inconvenient, but for the time being, it helps," according to the governor.

The same is true of the other factor he cites as a mitigating circumstance: that private holdings of equities are limited – only a quarter of the levels in the US or UK – and individuals have therefore been protected from the worst of the stock market downturn. It is a long-term problem, but a short-term advantage.

Indeed, it has been above all the maintenance of consumer confidence that has boosted the growth of the Belgian economy over the past year, while net exports have been declining and manufacturers have hesitated to invest.

Behind that consumer confidence lies a remarkable turnaround in the public finances of a country which, over the past two decades, had come to be regarded as a textbook case of chronic debt and deficit financing. Now, in spite of a public debt still running at some 118 per cent of GDP, well above the Maastricht criterion of 60 per cent, Belgium has been accepted as one of the 11 founder-members of the euro thanks to its success in reducing the absolute level of that debt.

"First, we are exporting above all to our neighbours, not to Asia," he says. Exports to south-east Asia amount to just 1.3 per cent of total Belgian exports, compared with 2.5 per cent

by 3 or 4 percentage points."

Since 1993, when the debt figure reached 135.2 per cent of GDP, it has come down steadily, and is forecast to reach 115 per cent next year.

Jean-Jacques Visser, who took over as finance minister from the respected Philippe Maystadt in June 1998, says: "We are involved in a drastic and irresistible reduction in our debt. This is a solid commitment which can resist any electoral pressure."

The key to the Belgian government's success has been the fixing of a target of 5.3 per cent primary surplus in the annual budget – the sum of all public income, less expenditure, before payment of debt servicing. "We haven't given in to the temptation to include the reduction in interest rates into our calculations," Mr Visser says. "Our target is the primary surplus, and we must not deviate from that objective."

His 1998 budget is based on a primary surplus of 5.3 per cent, a net financing requirement (deficit) of 1.3 per cent, and a reduction in the proportion of GDP consumed by the public sector from 38 to 37.7 per cent. Growth in public spending has been restricted to 1.3 per cent, against the economic growth forecast of 2.4 per cent.

"The latest budget was certainly disappointing for the ordinary public, but the reactions were much more reasonable than one might have expected," Mr Visser says. "I didn't receive a single letter of criticism. I believe it is the wisdom born of the experience of prodigality. Even in an election year,

we have been able to keep spending very tight."

Prodigality there certainly has been since the country was hit by the first oil price rise in the mid-1970s.

"In the early 1970s we were about the best performers in Europe, but after the first oil shock we lost our sense," says Mr Verplaetse. "By 1981, we were the sick man of Europe. We hit a deficit of 13.4 per cent. To get that down to 1.3 per cent in 1998 is dramatic."

Tight spending next year is also a radical change from the past. "In an election year, each party wants gifts for its electorate," Mr Verplaetse says. "The deficit rose traditionally by between 0.5 and 1.0 per cent of GDP. This time it is different."

Not only has spending been kept under control, but the targeting of a 6 per cent primary surplus has produced a virtuous circle: at average interest rates of 6 per cent, the net financing requirement is automatically coming down by around 0.3 per cent of GDP each year.

"Barring a major economic accident we will be in balance by 2002," Mr Visser says. In spite of the achievement so far, the finance minister still has two major pre-occupations: unemployment, and controlling social security spending.

"My concern is that we have not managed to maintain the pace of reduction of social spending," he admits.

In particular, issues such as the length of hospitalisation of patients, which varies by a factor of four

There are other reasons, of course: Belgium's strategic location, its political stability, an outstanding transport and communications network, whereas its highly skilled and motivated workforce has earned Belgium a proud productivity record.

Continued on Page 3

Come to Belgium. Conquer Europe.



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POLITICS by Dick Leonard

Coalition is on the slide

If the Socialists are in decline, their Christian Democrat partners are in freefall in some parts of the country

After six and a half years in power, Jean-Luc Dehaene's centre-left government of Christian Democrat and Socialist parties is in desperate straits.

Despite a slight improvement over the past quarter, fewer than a quarter of voters expressed any confidence in the government in a recent opinion poll, with well over half giving it the thumbs-down.

It has been wracked by resignations. Most recent was the departure in September of Louis Tobback, the interior minister and strong man of the Flemish socialists, after a 20-year-old Nigerian woman was suffocated by her gendarme escorts while resisting deportation.

Mr Tobback was the second interior minister to quit in five months after Johan Vande Lanotte resigned along with Stefan de Clerck, justice minister, in April over the brief escape of Belgium's most notorious criminal, Marc Dutroux.

In all, more than half the cabinet has quit over the past three years, several members leaving under a cloud.

Both the francophone and Dutch-speaking Socialist parties, in particular, have been badly hit by recent scandals.

Former deputy prime minister Guy Coëme received a suspended prison sentence in a corruption trial in 1996 and is again among the accused in the marathon trial concerning alleged bribery in exchange for defence contracts by the Italian Agusta and French Dassault companies.

With Mr Coëme in the dock are former Nato secretary-general Willy Claes and former Socialist leader Guy Spitaels, along with half-a-dozen other Socialist functionaries.

A fourth former Socialist minister, Alain Van der Biest, is one of the accused in another forthcoming trial for the 1991 murder of another former Socialist

Composition of the Belgian federal parliament since 1995	
Christian Democrats	
DVP - (Flemish) Christian People's party	29
PSC - (Francophone) Christian Social party	12
Socialists	
SP - (Flemish) Socialists	20
PS - (Francophone) Socialists	12
Liberals	
VLD - Flemish Liberal Democrats	21
PRLDF - Liberal Reform party/ Francophone Democratic Front	18
Greens	
Agalev - Flemish Ecology party	5
Ecolo - Francophone Ecology party	6
Others	
Volksunie (Flemish People's Union)	5
Waeme Blok (Flemish Nationalists)	11
National Front (Francophone Nationalists)	2
Total	150
Source: Belgian government	

Jean-Luc Dehaene, prime minister

leader, André Cools. Two Tunisian men were convicted of the shooting in a trial in Tunis earlier this year, but Mr Van der Biest is one of a number of defendants accused of having planned the crime or acting as accomplices.

It is hardly surprising that support for the Socialists, traditionally the dominant party in Wallonia, Belgium's French-speaking southern half, has plummeted and they are now equalled there by the right-wing Liberals.

In Brussels, where they have less than half the Liberal support, the Socialists have even been pushed into third place by the Greens.

Yet if the Socialists are in decline, their Christian Democrat partners are in freefall in some parts of the country. For long the



central force in Belgian politics, uninterrupted in government for more than 40 years, they seem to be cracking up.

An unwieldy alliance between small businessmen and trade unionists, their voters are peeling off in both directions.

Businessmen are increasingly attracted by the free-market Liberals, and the trade unionists, while retaining their membership of the Christian trade union confederation, are becoming used to casting their votes for the Socialist parties.

An underlying factor has been the sharp and continuing decline in church attendance. The Christian parties no longer have any link with the Catholic church, but their core voters have always been practising Catholics and as their numbers

decline so do their voters.

In an attempt to reverse the decline, the French-speaking Christian Social party (PSC) ditched its veteran leader, Charles-Ferdinand Nothomb, in June and replaced him with the popular and well-respected former finance minister, Philippe Maystadt.

So far Mr Maystadt has failed to stop the rot, and an opinion poll in September showed the party with its lowest ever rating.

In Flanders, Belgium's Dutch-speaking region, this tendency has been less marked, and Mr Dehaene's Christian People's party (CVP) has succeeded in remaining the largest political force, though its dominance is less than in the past.

The moment of truth will come at the general election

in December, when the PSC will be tested by the Greens.

Despite his apparent lack of ambition, Mr Verwilghen could well be drafted to lead what will be Belgium's 37th government since the second world war.

He did this with distinction, gaining unprecedented television coverage in the process. He shot to the top of the popularity polls and, crucially, has good personal relations with all the other parties that might be included in a coalition.

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INVESTING IN WALLONIA by Neil Buckley

Paying the price for taking an early lead

Attracting foreign companies is seen as essential if the region is to transform its heavy industry into a modern economy

At the reception desk in Wallonia's regional government building in Namur, a leaflet explains the words and music to the region's recently-adopted official hymn.

Like Flanders, its Dutch-speaking neighbour, French-speaking Wallonia is attempting to create a new, regional identity within a federal Belgium after more than a century as part of a unitary state.

But unlike Flanders, which has leapt straight from a largely agricultural economy to one increasingly dominated by high-tech and service industries, Wallonia is discovering there is a price to pay for having been the 19th-century cradle of Belgian industrial development.

It must transform its heavy industry into a modern economy, at the same time shouldering sometimes significant conversion and environmental clean-up costs. That makes the task of bringing in foreign investors even more vital.

Having already attracted some \$5.7bn of foreign investment between 1987 and 1997 – an impressive achievement for a region of 3.3m people – Wallonia is stepping up its efforts.

The Office for Foreign Investors, set up in 1991 and currently located inside the Namur regional government building, is to become a separate company next year, and hopes to complement its one existing overseas office, in Tokyo, with others in places such as the US, South Korea and Taiwan.

Some of the advantages it can boast for Wallonia are shared with the rest of Belgium:

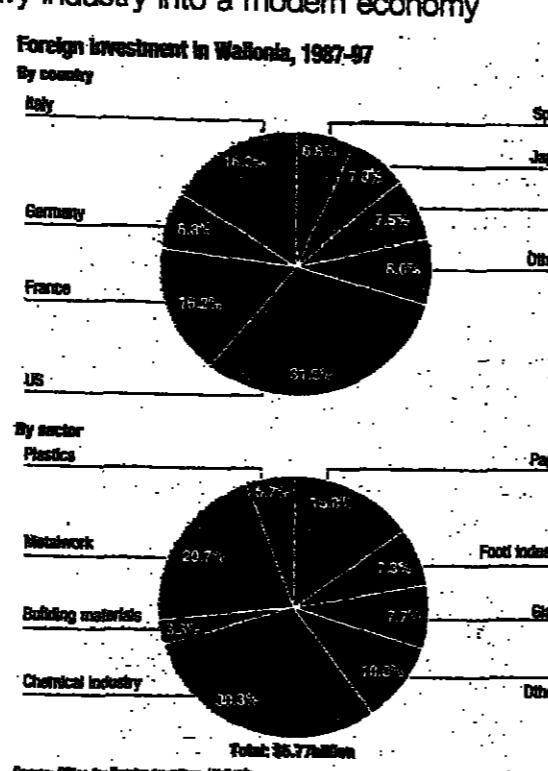
- A location at the geographic centre of the EU, with its market of 370m people;
- High productivity, several percentage points higher than most industrialised countries, including Japan and the US, according to international studies.

Hourly labour costs are in the mid-range of those in Europe, behind Germany, Switzerland and Norway, but ahead of the Netherlands, France and Italy, according to Cologne's Institute for the German Economy.

- A well-educated, multi-lingual workforce;
- Low office rates and good availability of land;
- Good transport infrastructure, with the densest road and motorway network in the world;
- Proximity to Brussels, its large international community and amenities.

But there are certain specifics. Wallonia, says Jean-Michel Matterne, director of the Office for Foreign Investors, is closer geographically to both France and Germany.

The Walloons have a natural cultural and linguistic affinity with the French, while displaying the multilingual abilities that are typically Belgian.



pean hub.

Another area is call centres, exploiting the multilingual abilities of the local population. L'TA, the French home shopping TV channel, is among recent arrivals, setting up a call centre in Charleroi, joining call centres for Hilton Reservations, Dow Chemical, Microsoft and Samsonite, among others.

But the foreign investment office insists Wallonia is not only a place for service industries such as logistics and call centres. It is also developing a high-tech manufacturing base, in fields such as biotechnology and aerospace.

Aerospace and aeronautics account for some 2,200 jobs, and the region claims that Belgium as a whole, with only 3 per cent of the EU population, carries out 6 per cent of European space research. Wallonia's Centre Spatial de Liège is one of the four co-ordinated facilities of the European Space Agency.

Several significant home-grown businesses such as Saab and Somaca are active in the aerospace field, and Walloon companies make many components for Airbus, the European airliner consortium.

Foreign investors have also been attracted, including Snecma, the French aircraft engine maker, and Pratt & Whitney, the US engine maker. They have respectively taken stakes of 51 per cent and 19 per cent in Techspace Aero – formerly the defence group Fabrique Nationale.

Mr Matterne warns that Wallonia, like all regions which have attracted significant Asian investment, has been affected by the economic downturn in that continent. But he is optimistic the effect will be short-lived.

"The dossiers coming from Asian countries are not completed in a few weeks. Sometimes they take years," he says. "We will continue, crisis or no crisis."

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SE1 9HL
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BELGIUM 3

FINANCIAL SECTOR by Neil Buckley

Banking map is redrawn

The wind of change was probably inevitable. Only two years ago Belgium had nearly three times as many banks as the Netherlands - which had a population half as large again

As directors of Générale de Banque met on a sultry June night for what would be a bruising 14-hour meeting, they were playing out the final act of a dramatic restructuring that has changed the face of Belgium's financial sector.

Générale's directors voted to use a tactic reminiscent of Wall Street, triggering a "poison pill" defence that would effectively hand victory to Fortis, the Belgian-Dutch financial services group that was bidding to take control of Générale, over rival bidder ABN Amro of the Netherlands.

The result cleared the way for Fortis to integrate Générale's operations with those of ASLK-CGER, Belgium's fourth biggest bank, which it already controlled and created the "Grande Banque Belge" that senior politicians had long pushed for.

At last here was a Brussels-based banking group big enough to fly the national standard in a single-currency Europe.

"We have suddenly, almost without realising it, become an important bank in Europe," says Maurice Lippens, chairman of Fortis AG, the Belgian arm of Fortis.

Lippens, chairman of Fortis AG, the Belgian arm of Fortis.

INC, which controlled more than 20 per cent of BBL after an abortive takeover bid in 1992, had refused to see its stake diluted in any BBL-Générale tie-up.

The takeover battle for Générale, the biggest yet for a continental European bank, was the culmination of one of the most sweeping rounds of financial consoli-

dation to have taken place in any EU country, affecting all seven banks.

That restructuring might be considered to have kicked off in earnest the day the FT's Survey of Belgium was published a year ago, when ING of the Netherlands announced a \$4.7bn takeover bid for Banque Bruxelles Lambert, Belgium's third largest.

There had been earlier manoeuvres. In 1996, Crédit Commercial de Belgique, the country's number five bank, had formed a dual-centred alliance with Crédit Local de France called Dexia, similar in structure to the Belgian-Dutch Fortis.

In the summer of 1997, Sabic Bank, Belgium's number seven, had taken over Paribas Banque Belgium, eighth biggest, renaming it Artesia.

But the ING bid for BBL indicated that the restructuring process had at last reached the country's top three banks. It was also a sign that the project long favoured to create the Grande Banque Belge, a merger of BBL and Générale de Banque, was not to be.

INC, which controlled more than 20 per cent of BBL after an abortive takeover bid in 1992, had refused to see its stake diluted in any BBL-Générale tie-up.

But other shareholders in a potentially merged BBL-Générale were not prepared to see ING maintain 20 per cent.

Within days of ING's new

bid Baron Albert Frère, the financier who controlled directly or indirectly about 37 per cent of BBL - and who had blocked ING's earlier bid - accepted, clearing the way for the deal.

Two months later Belgium's number two bank, and the pre-eminent institution in Dutch-speaking Flanders, Kredietbank, unveiled a three-way merger with Cera Bank, Belgium's number six, and ABG, the insurance group, to create a new bancassurance giant called KBC.

With KBC's formation, Belgium might claim to have not one but two Big Belgian Banks. KBC vies with Fortis AG to be the biggest company on the Brussels bourse by market capitalisation. And it has already hinted at possible future co-operation with Rabobank, the Dutch bank, which could give it even greater clout in Euro-area finance.

But, taking both Fortis AG and the Dutch arm Fortis Amro together, the group's absorption of Générale de Banque has transformed it into one of the continent's top 10 banks and insurance groups with a combined market capitalisation similar to that of Deutsche Bank.

But things did not go all

Fortis' way. Having persuaded Société Générale de Belgique, the holding company that was biggest shareholder in both Fortis AG and Générale de Banque, that a link-up of the two was desirable, Maurice Lippens, the

Fortis AG chairman, met opposition from some of Générale's directors.

Having persuaded Générale's board to vote unanimously for a merger with Fortis, Mr Lippens was then confronted with a surprise higher bid from ABN Amro. Victory was only assured after Générale de Banque's board triggered its "poison pill".

The restructuring has not been confined to the banking sector. French insurer AXA-UAP moved to take full control of its partially-owned subsidiary Royal Belge, Belgium's second biggest

The coming of the euro provided the catalyst for action

insurer, ending a joint control agreement with Mr Frère. It later merged Royal Belge with its other subsidiary, AXA Belgium, the country's third biggest insurer. And Swap, the mutually owned insurer that is Belgium's third biggest, was partially acquired by Dexia.

Much of the restructuring was probably inevitable, and overdue. By 1996, Belgium still had almost three times as many banks, at 141, for its 10m population as the Netherlands did for 15m, even though the total had dropped from 178 in 1990.

It had no financial institutions to compare in size with its northern neighbour's

ABN Amro, ING or Rabobank. Only Générale made it into Europe's top 100 banks by assets.

It also had more bank branches for each inhabitant and higher percentage staff costs than any of its non-EU neighbours.

"My feeling is that financial restructuring was a project that was somewhat overdue," says Herman Daems, professor of strategy and international management at Leuven Catholic University.

"Even at the end of the 1980s people were saying we needed restructuring."

The imminent launch of the single European currency was the factor which finally persuaded Belgian banks they had to act jointly to withstand incursions into their own market and to take advantage of the expansion opportunities the disappearance of currency barriers will provide.

But being big is not enough. As much as Belgium's unions and relatively rigid labour laws permit, financial restructuring is likely to lead to widespread branch closures and streamlining of personnel.

"Now the mergers have to be consummated. You have to get all the benefits and realise all the synergies," says Mr Daems.

Fortis, which is forecasting Euromarket annual savings benefits by 2002 of 300m.

Integrating Générale de Banque is a massive job that can be achieved through early retirement without compulsory redundancies.

But the most dramatic corporate battles may be over. Some of the pain of Belgium's financial restructuring may be still to be felt.



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REGIONAL POLITICS by Neil Buckley

Old hands at being adaptable

The task of fashioning a federal structure to fit Belgium's complex cultural patchwork was always going to be difficult

As Luc Van den Brande, minister-president of Dutch-speaking Flanders, gave a recent TV interview with his dog clearly visible chewing on a rubber cockerel - symbol of French-speaking Wallonia - relations between Belgium's main regions seemed at a standstill.

Mr Van den Brande's officials insist the incident was an accident, not a calculated snub. But his words about his southern neighbours were hardly complimentary.

Wallonia's economy, he said, was a "sick man", not helped by its regional government's "Marxist" economic policies.

"The interview was seen as a riposte to a speech by his Walloon counterpart, Robert Collignon, on Wallonia's national day. Mr Collignon accused the Flemish of nationalism and intolerance, implicitly comparing some of their policies to those of Jean-Marie Le Pen, the French nationalist.

With both regional and national elections and a new round of constitutional

reform talks due next year, regional politicians have sharpened their rhetoric.

Partly, they need to keep at bay nationalist parties whose support is growing on both sides. Vlaams Blok, the far-right Flemish group, is now the second-biggest party in Antwerp, Belgium's second city.

But, 28 years after Belgium began its shift to federalism, the process aimed at keeping the state intact while ensuring fairer treatment for all its constituents seems to have unleashed centrifugal forces.

Fashioning a federal structure to fit Belgium's complex cultural patchwork was always going to be difficult.

Belgium does not divide neatly into two along linguistic lines. It actually has three linguistic groups - Dutch-speakers, French-speakers, and German-speakers in the east.

Brussels, meanwhile, is an 85 per cent francophone island within Dutch-speaking Flanders. The result is a unique

system of three regions, overlaid by three language communities, each, in principle, with a government and assembly. The language communities - Flemish, Francophone and German - take care of education and culture on their territory. The Francophone and Flemish communities share responsibilities in Brussels.

The three regions - Flanders, Wallonia, and Brussels-Capital - are responsible for economic and industrial policy, town and country planning, and environmental issues. The Flemish language community and region have effectively merged.

Central government retains responsibility for foreign policy, defence, justice, social security, health, and the public debt.

Senior politicians suggest the country should be praised for finding such an ingenious way of balancing community interests. But the structure has not ended linguistic tensions. In some areas, they seem to be escalating.

A dispute simmering in six

communes, or municipalities, bordering Brussels has attracted criticism from the 40-nation Council of Europe.

The six, officially part of Flanders but with large French-speaking populations

- many of whom have migrated outwards from Brussels - used to provide services and documents in French. But they cut back

the services dramatically

move as discriminatory. The report was toned down by the time it was finally adopted by the Council - but not before it had caused uproar in Belgium.

"Never since the creation of the Council of Europe [in 1949] has a subject provoked such a media storm," remarked Mr Collemburg.

Another row was provoked by a European Court ruling forcing Belgium into line with an EU directive giving non-Belgian EU citizens resident in the country the right to vote in local elections.

Flemish politicians argue that since most non-Belgians speak French rather than Dutch, they are more likely to vote for francophone candidates.

The result could be to wipe out Dutch-speaking parties in Brussels - the city claimed by both main communities as their capital.

There are also economic tensions. High-tech Flanders enjoys growth about four times higher than that of Wallonia, struggling to convert its old heavy industry.

Unemployment is falling in the north, and rising in the south. Some say these differences in themselves require a more differentiated policy approach.

The minister-president of Brussels-Capital region, Charles Picqué, has also indicated he will seek a better financial deal for the city, which generates 35 per cent of Belgian corporate taxes.

Next year's talks may generate media sound and fury,

"The Belgian economy is an average of two completely different economies," says Herman Deems, professor of strategy and international management at Leuven Catholic University, and former chef de cabinet of Eric Van Rompuy, Flemish economy minister. "We are making assumptions across the whole state that might not be relevant to the regions."

Flanders also argues that it subsidises poorer Wallonia, particularly the social security system.

That issue is likely to dominate next year's talks, whose purpose is to renegotiate a 1988 financing agreement whereby central government collects about 90 per cent of total tax receipts, and redistributes them in grants to the regions and communities.

Flemish parties, to varying degrees, want greater fiscal and budgetary autonomy for Flanders. Some also suggest the social security system should be broken up - easing the funding burden on Flanders, but imposing serious strains on Wallonia.

The minister-president of

Three communities, three regions

The communities

The regions

The Flemish community

The Flemish region

The French community

The Brussels-capital region

The German-speaking community

The Walloon region

The Arabic-speaking community

The Arabic-speaking region

but commentators and polls suggest most Belgians still do not favour a break-up of the state. If this tri-lingual, multicultural country has developed a particular skill in its 168-year history, it is how to be adaptable.

AGRICULTURE by Michael Smith

Farmers are beefing about pigs

Every EU price review seems to reduce farm incomes still further

One of Belgian farm minister Karel Pinxten's more thankless tasks is an annual trek to parliament to explain why efforts to lift agricultural incomes to levels in other sectors have yet again failed.

An income parity law passed in 1982 requires the attempt to be made. But it is nine years since farmers' average earnings matched those of industrial workers and, according to latest figures, they are now paid 17 per cent. Mr Pinxten says that trying to reach the parity goal is frustrating, but says the process is worthwhile because it concentrates ministry and parliamentary minds on the problems of farmers.

This year there is much to focus on. Belgian farmers, like their counterparts throughout Europe, are suffering from some of the lowest agricultural prices in years, and there could be worse to come.

Proposals by the European Commission, the EU's executive, will cut guaranteed prices for cereals, beef and milk - paid to farmers when markets are weak - by up to 30 per cent in the new millennium as part of wide-ranging reform of the common agricultural policy (CAP).

The commission says the reforms will improve farmers' incomes because they will provide direct payments to farmers as compensation for price cuts and because they will stimulate demand for agricultural products.

Mr Pinxten and Belgian farmers disagree. Belgium's experience of previous CAP reforms is that incomes fall, he says, and the same could happen this time. "As the proposals stand now, we cannot accept them."

Belgian agriculture is small compared with other EU countries, providing



Karel Pinxten: agriculture minister with a frustrating goal

about 1 per cent of total European farmland and contributing 1.6 per cent of the country's gross domestic product. But its 69,000 farms employ 115,000 people, usually in remote regions where other types of jobs are scarce. The annual farm trade surplus is BFr9.5bn.

Most of the trade surplus is provided by the livestock sector. Pig farmers produce more than twice the country's requirements, exporting the rest, and account for about a quarter of the BFr250bn value of all agricultural products.

Pork and vegetables contribute a similar amount while the milk sector accounts for 15 per cent and beef and arable crops about 13 per cent each.

In the four main sectors, fruit and vegetable growers have bounced back from weak prices two years ago but beef sales are still reeling from the 1996 BSE "mad cow" crisis, and arable and pig farmers are suffering badly.

Over-production of pigs throughout Europe has led to a fall in prices obtained by Belgian farmers from about BFr70 a kilo to BFr4. "It is still possible to survive because compensation for price cuts was paid per head of cattle, a fixed amount whatever the size or quality.

"It is the same this time. The 30 per cent price reduction will have a much bigger impact on us," says Mr Pinxten.

Rather than price cuts, he is pushing for measures to reduce the supply of beef, for example through payments to slaughter animals at a young age.

Pig farmers are also facing calls from the European Commission for action on the environmental damage caused by pig manure.

Virtually all the country's 7.4m pigs are concentrated in the northern part of the country and there are fears that their manure increases nitrates in water consumed by people.

Mr Hughe says farmers

are determined to resist calls to follow the lead of the Netherlands and reduce the pig herd. "It would be a disaster for agriculture," he says.

Pig farmers are, however, relieved that they are not facing the kind of market reforms being proposed by the European Commission on beef, milk and cereals.

Mr Pinxten says incomes in sectors affected by the last series of EU reforms in 1992 have fallen by 5 per cent and he is determined to avoid the same happening again.

Belgium's biggest problem is with beef, where average farmer incomes are about half of the agriculture sector average. BSE is partly to blame, but Mr Pinxten says the 1992 reforms penalised Belgium because it has a higher preponderance of large cattle yielding quality meat than other countries.

The difficulties arose because compensation for price cuts was paid per head of cattle, a fixed amount whatever the size or quality.

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Mr Hughe says farmers

towards abolishing quotas in 2006.

"I prefer the status quo on milk," says Mr Pinxten. "It has produced stable prices, we remain important players on the world market, and CAP spending on milk has gone down."

Nor does Belgium show much enthusiasm for 20 per cent cuts in cereal prices, although it may be more flexible on this because of the relatively high incomes of Belgian cereals farmers.

As in all sectors affected by reform, Belgium will push for what it considers to be full compensation for any price cuts agreed.

The problem for Mr Pinxten is that Belgium has only five of the 87 votes in the European Council of Ministers.

The big decisions will be made by the big countries.

But it is Karel Pinxten who will have to go to the Belgian parliament to face the music if the reforms turn out badly for the country's farmers.

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Mr Hughe says farmers

TECHNOLOGY by Emma Tucker

Another silicon valley

Flanders Language Valley aims to be a leader in the development of speech products

The future site of the Flanders Language Valley is much like any other muddy building plot except for the fact that construction workers recently uncovered two rusting explosives.

The discoveries were not altogether surprising. The new buildings are located on a world war one battlefield. A small Irish military cemetery is visible just outside the grounds.

Eighty years since the end of the 1914-18 conflict, the 85-acre site outside the Flemish town of Ieper - or Ypres - is being prepared to house what its creators have dubbed as Europe's answer to Silicon Valley.

The Flanders Language Valley aims to bring together entrepreneurs at the cutting edge of speech and language technology-based products.

Its centre piece is Lernhout & Haupsie Speech Products, a Belgian company founded 11 years ago which specialises in core technologies - automatic speech recognition, text-to-speech, text-to-text and digital speech compression.

These are licensed to some of the world's leading IT companies including Microsoft, Motorola, Ericsson and Deutsche Telekom.

The founders, eager to exploit the cross-fertilisation between themselves and the companies with which they had links, formed the idea of the FLV. Together with a venture capital fund and a support foundation, the idea was to create a "unique

breeding ground" for the development and commercialisation of speech and language technology-based products.

The FLV fund is the first venture capital fund in the world to focus exclusively on applications in speech and language technology. Its advantage, for both investors and the investing companies, is the expertise and contacts of those in charge.

Philip Vermeulen, chief executive of the fund, says: "We don't rely on outsiders to tell us about the market. We know the market. We are the market."

Since December, 1995, it has made 19 investments worth \$43.5m and has attracted high profile investors including Microsoft, which has taken a small stake. Earlier this year it was successfully floated on the Easdaq.

At the moment the lion's share of the fund's investments are in US companies, with two Israeli companies also taking a sizeable proportion.

The fund's managers hope to increase the European share in time.

Recent investments include \$3m in Via, a US company developing "wearable" computers, such as belts that incorporate a computer with which the human voice is the only interface.

This for example, could be used by someone carrying out quality control on cars at the end of a production line.

The other core element of the FLV is its foundation, a

comprehensive support system whose services are free for companies which settle in the valley. It includes intensive training programmes designed to meet the shortage of IT workers in Europe's head-on.

"By doing this we can feed the pipeline ourselves," says Bart Verhaeghe, president of the foundation.

It also organises infrastructure at the FLV site, such as shops, banks and a day care centre for children. Its central structure should be finished by September next year, although many companies will have moved in before then.

The foundation has also been busy developing a test bed for its products, providing local families with set-top boxes for their televisions through which they will be able to try out new services such as virtual banking and shopping.

The foundation, which is entirely separate from the fund, is financed by Lernhout & Haupsie plus the revenues generated from rent and some of the educational activities.

Another critical feature of the FLV is its location. Flanders is typical of high-tech industry specific "valleys" cropping up all over Flanders. The region also hosts a biotech valley, a graphics valley and a multimedia valley, all hoping to exploit the highly trained workforce and central location.

"We will have to build more rivers soon," says Mr Verhaeghe.

But there is something very specific about the FLV which sets it apart from the others. This is partly the presence of Lernhout & Haupsie and the very focused expertise it provides, but also the existence of the fund and the foundation.

Belgian weather aside, the FLV appears to have all the ingredients necessary to become Europe's answer to Silicon Valley.

In Flanders, the northern, Dutch-speaking part of Belgium, offers grants worth up to BFr200m per project. In the Brussels-Capital Region subsidies for industrial research usually cover 50 per cent of the costs and can make up as much as 80 per cent for small independent companies.</

PROFILE
COCKERILL SAMBRE

Marriage crosses borders

Once it would have been unthinkable, but 'the time has come to pass the baton' on part of the nation's industrial soul

A statue of John Cockerill still stands on the Place du Luxembourg in Brussels, commemorating him as the "Father of the Workers".

But the steelmaker that bears the 19th century British engineer's name, Cockerill Sambre, is preparing for a new future as part of Europe's biggest steel group - and under French ownership.

The marriage of Usinor of France and Cockerill Sambre was finally celebrated last month and will create one of the world's top three steelmakers with annual production of 21m tonnes of raw steel.

But it also marks the passage of another of Belgium's oldest businesses and the industrial soul of the once-mighty Walloon region, into French hands.

Its loss to Belgium would once have seemed as unthinkable as that of Société Générale de Belgique, the powerful holding company once reckoned to account for one-third of the national economy, which also came under 100 per cent French ownership this year.

The group assumed its present form in 1981 when the Belgian government consolidated Wallonia's two lossmaking steel concentrations, Cockerill of Liège, founded by John Cockerill in 1817, and the "Triangle" group of Charleroi companies led by Hainaut-Sambre.

Its constituent parts had employed 50,000 people in the 1950s, and even in the 1980s it employed 25,000 and was estimated to support directly or indirectly about 100,000 manufacturing jobs, 10 per cent of Walonia's manufacturing workforce.

Cockerill has since been slimmed down and returned to viability in an often painful 15-year recovery programme led by Jean Gandois, French former head of Rhône-Poulenc.

But by last year it was clear that the Walloon region, which inherited a 78.77 per cent stake in the company when the Belgian state was federalised, could not provide the investment needed to equip it for the next century. The only solution seemed to be

privatisation.

Usinor, the French steel group, is committed to provide the money needed. It is buying 53.77 per cent of Cockerill from Wallonia for BF126bn, valuing the whole group at just under BF150bn.

Subject to the deal being approved by the European Commission, and to Cockerill acquiring the 40 per cent it does not already own of Eko Stahl, the eastern German steelmaker of which it took control in 1995, Usinor will then launch a public offer for the 21.23 per cent of Cockerill quoted on the Brussels bourse.

The Walloon region will retain a 25 per cent blocking minority, subject to a series of call and put options after seven years, with the price determined by reference to a basket of steel company shares.

For five years Usinor will make strategic decisions affecting the group in consultation with the region.

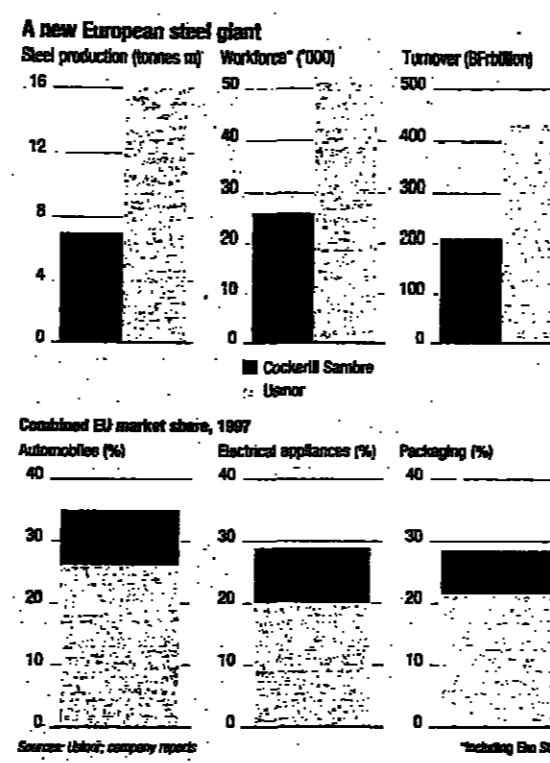
The French steelmaker is committed to completing Cockerill Sambre's existing Horizon 2000 restructuring plan, which will reduce employment in Belgium from 10,000 to about 7,770, investing BF11.6bn on top of the BF12bn foreseen under the plan. Its workforce redeployment unit, Sodie, is also committed to creating 4,000 non-steel jobs in Walonia.

Robert Collignon, Walloon minister-president, declares himself pleased with the deal.

"It is the right moment for us to pass the baton," he says. "We don't have the vocation to be industrial managers."

Francis Mer, Usinor chairman, says the two groups are "very complementary, and as a combined entity will be better equipped to face the cyclical downturns of the world steel industry."

There are important synergies to be realised. Cockerill will be integrated into Usinor's main flat carbon steel division, Sollac. Its steelmaking activities at Liège and Charleroi will significantly boost Usinor's existing strong position in the automobile, packaging and appliances sectors, and Cockerill will add its own particular strength in building



and distribution.

Liège will also supply semi-finished products to Usinor's rolling mill at Florange, Lorraine - at present supplied by the French group's foundry at Fos, 800km away near Marseille. Fos will be free to concentrate its production on southern European markets.

Cockerill's flat stainless steel operations will be grouped together with Usinor's Isbergues factory in northern France, and Fabrique de Fer de Charleroi (Facer), acquired by Usinor a year ago.

Mr Mer has pledged to develop Charleroi, Cockerill's hot-rolling facility in Charleroi, into the best in Europe in terms of quality and cost.

And in Eko Stahl, beneficiary of DM1.3bn investment in the past three years, the group will have one of the most modern steelworks in the emerging eastern European markets.

But not everyone is entirely happy. While he expressed optimism over the group's future with Usinor, Mr Gandois told a steel industry conference last month that the Walloon region could have extracted up to BF150m more for Cockerill if it had not dallied over the privatisation process so long.

After the process began in

March, groups including British Steel, Hoogovens of the Netherlands and Arcelor of Luxembourg, showed interest. But by the time the short list of bidders was published in July only Usinor and Germany's Thyssen Krupp Stahl remained.

Thyssen Krupp twice asked for the offer period to be extended, only to pull out days before the final deadline of September 21. That left Wallonia in the weak position of having only one bidder and a Cockerill share price that had dropped from BF214 to BF152 in three months as world stock markets slumped and the outlook for steel deteriorated.

Mr Gandois also complained that his team had been excluded from the negotiating process with Usinor, which was handled entirely by the regional government.

As the Belgian press and analysts complained that Cockerill had been "sold cheap", Mr Collignon was left insisting that what was most important was not the price but the employment guarantees he had won.

The financial gains for Wallonia may be less than had been hoped, but at least Mr Cockerill's name will live on for some time yet.

Neil Buckley

Guide for visitors

General information

Time: GMT +1 hr (GMT +2 hrs from late Mar to late Sep)

Climate: Temperate, with warm weather from May-Sep. Summer temperature averages around 18°C, winter around 11°C. Hottest month July; coldest January. Rain throughout the year, wettest months Oct-Nov.

Entry requirements

Visas: Not required by nationals of the US, Japan and most western European countries for period of up to three months.

Currency: No restrictions on foreign or local currency movements.

Customs: Personal effects and goods (up to the value of BF25,000 for non-European residents and BF7,500 for European residents) duty free.

Air access

Frequent first-class and economy flights linking Brussels with over 90 international cities.

National airline: Sabena Belgian World Airlines. International airports Brussels (BRU), 13 km north-east of city centre; Antwerp (ANR), 3 km from city; Ostend (OST); Liege (LGG), 8 km from city.

Surface access

Good road and rail access with the main centres of the Netherlands, France, Germany and Luxembourg. Also daily crossings by boat or jetfoil from Ostend or Zeebrugge to UK.

Main ports:

Antwerp, Ghent, Zeebrugge, Ostend, Brussels, Liege.

Hotels

Advisable to book hotel or pension in advance either direct or through Belgian Tourist Reservations. All tariffs must be displayed by law. Service charge usually included. Tipping 10 per cent. Major credit cards accepted.

Car hire

Available at airports and in most main towns. Speed limits: urban roads 60 kph, main roads 90 kph. Maximum speed on motorways 120 kph, minimum speed 70 kph. Drive on the right. Wearing of seat belts compulsory. Usually prohibited for children under 12 to sit in front seats.

City transport

A 24-hour tourist ticket valid on all Brussels subway, tram and bus lines is on sale at the Information and Tourist Welcome Office, 63 rue du Marché-aux-Herbes, 1

Grasmarkt, and at the Tourist Information Bureau located in the City Hall (Hôtel de Ville), Grand-Place, Grasmarkt.

Taxis: Readily available.

Standardised fare system,

which includes service charge. Chauffeur-driven cars cheaper on long runs.

Buses: Regular flat-fare tram and bus service.

Metro: Networks in Brussels

and Antwerp. Société des Transports Intercommunaux Bruxellois (tel: 515-2000).

Rail: Special airport shuttle service operates from Brussels Central Station and North Station. Train (first and second class) departs every hour.

Road: Extensive road network. Toll-free motorways

serve all main towns with the exception of those in the Ardennes.

Comprehensive coach service, particularly to rural areas, operated by

Société Nationale des Chemins de Fer Belges (SNCB) and Société Nationale des Chemins de Fer Vicinaux (SNCFV).

Rail: Belgium is said to have densest railway network in world. Service operated by Société Nationale des Chemins de Fer Belges (SNCB). First- and second-class service serves all main towns. Combined tickets allowing for stop-overs in main towns offer best value. Express trains (TEE) ensure rapid connections with all French, Dutch and German cities.

Water: Over 1,500 km inland waterways, 50 km per 1,000 sq km. Service

operated by Administration des Voies Hydrauliques.

Inland canals connect with major French, Dutch and German ports.

Working hours

Business: (Mon-Fri) 0830-1630.

Government: (Mon-Fri) 0900-1700.

Banking: (Mon-Fri) 0900-1200 and 1400-1600.

Shops: There are large variations in opening hours

typically 0900-1900.



CHOCOLATE INDUSTRY by Rachel Johnson

Newcomers seek a soft centre

Taste wars break out among some family concerns in the hand-made luxury market

For Belgians, chocolate is as essential and delectable a part of daily life as beer brewed by Trappist monks, fresh croissants and frites with mayonnaise.

In a country where eating well is a matter of national honour, Belgians come second only to the Germans in their consumption of chocolate. On average they manage to put away a hearty 84 kilos of the stuff each year - against a European-wide average of a mere 54 kilos.

Consumption has remained stable, up just 2 per cent over the past six years to sales worth BF577bn, but two trends are discernible:

- Chocolate-making is changing fastest at the top end of the market, where competition is hotting up among smaller producers of exclusive hand-made pralines and luxury chocolate bars;

- Producers have an increasing appetite to export the unique pleasures of the Belgian chocolate to the rest of the world.

Market leader in quality pralines (representing a quarter - or 21,200 tonnes of the total market) is Neuhaus, founded in 1857, with its trademark green and yellow boxes, called *ballotins*. It exports to 36 countries and has 2,000 outlets, with its main competitors being Godiva and Côte Royal Neuhaus, which has a market capitalisation of some BF2bn, realises more than 80 per cent of its turnover in Benelux, France and Germany.

Chocolate wars, though, are breaking out among the small producers - family-owned businesses making

each chocolate by hand.

These must be eaten within two weeks - no challenge at all in chocoholic Belgium.



According to the latest market leader, with 88 per cent, is Côte D'Or - now owned by Philip Morris.

So the heart of the Belgian chocolate industry is now owned by Americans. It seems difficult to imagine Gustav Henri Wittamer, or Pierre Marcolini for that matter, ever agreeing to sell their exquisite boutiques and ateliers to anyone, whatever the price.

Wallonia : the most cabled region at the heart of Europe



Our IT networks enable our software companies to be more creative.

The densest network of coaxial cable and optical fibers, used for cable TV.

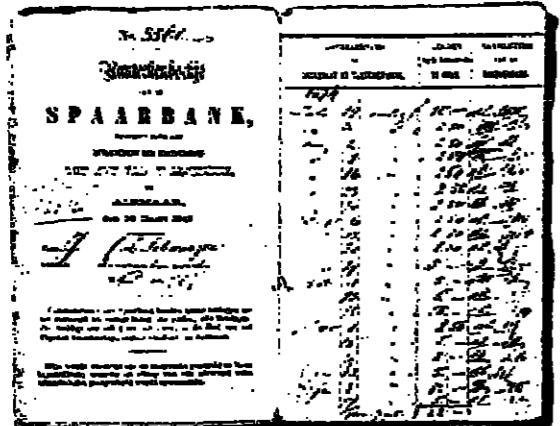
IP technology and other high-speed data transmission in the heart of Europe is in Wallonia. In addition to this, central location*, skilled workforce, interesting R&D and incentives programs really make Wallonia the region your IT partner in Europe.

*According to a survey made by the French National Geographical Institute, the geographical center of Europe is in Wallonia.

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NOW GÉNÉRALE DE BANQUE, INCORPORATED IN 1822



CRÉDIT À L'INDUSTRIE, INCORPORATED IN 1919

How deep are Fortis' roots?

The companies in the Fortis group are renowned for their strength in the financial world and society at large. Some have more than a hundred years' experience.

Fortis itself was created in 1990 by the combination of the Belgian insurer AG and the Dutch bancassurance group AMEV/VSB. It was the first cross-border alliance in the financial world.

But the two parties were already well-known for their distinctive entrepreneurial spirit and innovative methods.

In the last century, AG 1824 was the first life insurer in Belgium. AMEV/VSB was the first bancassurance group in the

Netherlands thanks to the merger between the insurer AMEV and VSB Bank.

Since its creation, Fortis has built up a unique organization that has grown in every respect. MeesPierson and ASLK-CGER joined Fortis. And recently the ranks were strengthened by the arrival of Générale de Banque, the oldest and largest bank in Belgium. The new combination with Générale de Banque makes Fortis one of the largest integrated financial service providers in the Benelux. A springboard for further growth in Europe, the United States of America and Asia.

From this solid base, Fortis' 58,000

staff are working hard on growing further and improving their services. It is a team made up of strong players that share their know-how and experience and make optimum use of each other's strengths. A group that has proven that it can respond promptly to developments in the market.

Wherever you see the Fortis name, you will find solid partners working on flexible solutions.

We owe it to our roots and reputation. Fortis: another way of thinking about insurance, banking and investment.

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Solid partners, flexible solutions

Members of the Fortis group in the Benelux include AG, AMEV, ASLK-CGER, Fortis Investments, Générale de Banque, Crédit à l'Industrie, MeesPierson and VSB Bank. For more information on Fortis, telephone in Belgium 32 (0)2 220 84 53 or in the Netherlands 31 (0)30 257 57 77. Or visit our Internet site at www.fortis.com.

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FINANCIAL TIMES

COMPANIES & MARKETS

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TUESDAY NOVEMBER 3 1998

Week 45

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INSIDE

EU ministers lock horns over beef
More than a year into the great debate on European agriculture, farm ministers have found little on which to unite, but on one aspect of the proposed reforms there is unanimity. Everyone agrees the beef market is heading towards crisis and that, without reform, there will be a growing mountain of the meat. While European Union ministers agree on the diagnosis, agreeing on a cure is a different matter. Page 30

Rivals waltz far ahead of Vienna
However hard it tries, the Vienna stock market cannot shrug off its image as one of the world's worst performing. Since the end of 1995 the German and Swiss stock markets have doubled; Austria has risen less than a fifth. Every so often it is "discovered" by international investors. But at the first hint of trouble they take flight and Austrian shares take a battering. Page 40

Parcels business crosses borders
A joint venture between Securicor, the UK security and parcel delivery company, and Deutsche Post, the German state-owned post service, marks the start of consolidation across European borders in the industry. As the barriers between European markets come down, cross-border traffic is growing fast and customers are expecting parcels to be delivered as quickly across borders as within them. Page 25

Redchips keep flying higher in HK
Their parents are riddled with debt and credit is tight. Yet share prices of the redchips, or mainland-backed Hong Kong companies, are rising and their numbers growing. Many investors believe the Hong Kong government will not allow redchips, which report to a mix of Chinese provincial governments or directly to ministries in the central government, to fall because of their big debts to local banks. Page 21

Oil prices rise on Iraq-UN stand-off
Crude oil prices were given a boost by the confrontation between Iraq and the United Nations. The price of Brent Blend for December delivery rose 16 cents a barrel to \$13.38 in late trading in London. Page 30

Strong yen and banks lift Nikkei
A deal between Fuji and Dai-Ichi Kangyo banks to forge closer links and another good day for the yen lifted Tokyo in quiet trading before a holiday today. The Nikkei 225 Average ended 388.24 or 2.9 per cent better at 13,932.75, its highest close for more than a week. Page 40

Jamaica nationalises sugar mills
The Jamaican government has retained control of the island's three largest sugar mills, which were privatised four years ago. Page 30

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COMPANIES & MARKETS

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THE FINANCIAL TIMES

COMPANIES & FINANCE: EUROPE

PHARMACEUTICALS COSTS OF RESTRUCTURING US JOINT VENTURE BEHIND DOWNTURN

Astra slips 14% in third quarter

By Greg McVoy in Stockholm

Astra yesterday announced a 14 per cent drop in third-quarter profits as the Swedish pharmaceuticals group incurred sharply higher costs following the restructuring of its US joint venture with Merck this year.

Pre-tax profits dipped from SKr3.5bn to SKr3.0bn (\$834m), in spite of a 27 per cent rise in turnover driven by strong sales of Losoc, Astra's anti-ulcer blockbuster which is the world's

top-selling prescription drug.

Operating costs jumped from SKr7.6bn to SKr11.3bn, reflecting Astra's payment of substantial sales-related compensation to Merck in return for taking management control of the joint venture.

The figures, which included a maiden contribution from the restructured Merck venture, were in line with forecasts. Nevertheless, some analysts said the diluted effect of the Merck deal was slightly less pronounced

than they had feared.

Hakan Mogren, chief executive, said the agreement - under which Astra now pays Merck about 30 per cent of Losoc's US sales - would dilute earnings by about 10 per cent during the second half of 1998, and by 5 per cent next year.

Astra's most-traded A shares gained SKr5 to close at SKr13.52.

Stripping out the impact of the Merck transaction, third-quarter operating profits fell 10 per cent.

For the nine months, pre-tax profits rose from SKr10.5bn to SKr11.3bn, lifting earnings per share from SKr4.54 to SKr4.91.

Losoc sales rose 34 per cent, from SKr15.5bn to SKr20.8bn. The highest growth was in the US, where it is known as Prilosec.

The figures highlighted Astra's heavy dependence on Losoc, which accounted for 68 per cent of turnover.

Sales of the drug are expected to fall sharply after 2001 when its patent protection starts to expire, and some analysts expressed disappointment at lower-than-expected growth in some of the drugs that Astra hopes will fill the Losoc void.

Sales of Pulmicort, an asthma treatment which is Astra's second-biggest selling drug, advanced 3 per cent, from SKr3.59bn to SKr3.62bn.

Astra admitted Pulmicort's penetration of the US market had "initially developed somewhat more slowly than originally expected".

Fila to appoint new head from Ferrari

By Paul Bettis in Milan

Fila, the troubled Italian sportswear company listed in New York, has turned to Ferrari, Italy's legendary sports car manufacturer, to help revive its flagging financial fortunes and share price.

Michel Scannavini, Ferrari's commercial and marketing director, is due to be appointed this week as Fila's chief executive. Mr Scannavini, who joined Ferrari from Procter and Gamble five years ago and played a significant role in the carmaker's recovery, is taking over at Fila as the company struggles to restructure after a £11.7bn (\$17.6bn) loss in the first half of this year.

Barely three years ago, Fila was considered one of Italy's high-flying fashion and sportswear brands after building up a significant US presence. But the company, 53 per cent controlled by HDP, the Milan-based industrial holding company with extensive fashion and textiles interests such as Valentino and GFT, has seen its shares tumble from a high of \$74 last year to \$39 early yesterday.

Mr Scannavini, 38, was recruited to Ferrari by Luca di Montezemolo, Ferrari's chairman, and has helped the elite sports car manufacturer - now owned by Fiat - to return to profit.

Mr Scannavini's decision to move to Fila also appears to have been taken because he felt he was unlikely to move further up the ladder at Ferrari following the appointment last year of Paolo Marzotto as managing director of the Ferrari group.

Ferrari, disappointed by failing to win the Formula 1 championship in Japan at the weekend, launched a Maserati coupe in September, marking Maserati's comeback in the luxury sports car market after 15 years of losses.

The group hopes to repeat with Maserati the successful strategy that has seen the Ferrari brand return to profit and expand in the international market.

Under Mr di Montezemolo, Ferrari has also been expanding merchandising using the Ferrari brand.

Merchandising activities now account for about 10 per cent of the group's annual turnover and earned Ferrari £20bn in royalties last year.

Ferrari is expected to spin off its growing merchandising activities and is considering opening Ferrari stores in Italy and abroad.

NEWS DIGEST

TELECOMMUNICATIONS

Panafon aims to raise \$600m with Athens IPO

Panafon, the leading Greek mobile telephone operator that is controlled by the UK's Vodafone, expects to raise about \$600m through an initial public offering on the Athens stock exchange of about 33m shares, equivalent to 15 per cent of its equity. About two-thirds of the offering will be allocated to international institutions, with the remainder split between Greek retail and institutional investors. Roadshows start this week and a price range will be fixed later this month. Warburg Dillon Read is sole global co-ordinator, with Goldman Sachs, Alpha Credit Bank, the Greek private bank, Deutsche Bank and National Bank of Greece as lead managers.

Vodafone holds a 55 per cent stake in Panafon, France Telecom has 35 per cent and Intracom, the Greek telecommunications equipment manufacturer, 10 per cent.

The offering will reduce France Telecom's stake to 20 per cent. Panafon claimed a 56 per cent share of Greece's fast-growing mobile market as at the end of September.

Kerin Hope, Athens.

BANKING

HypoVereinsbank to hold egm

The supervisory board of Bayerische HypoVereinsbank, Germany's second biggest bank, is to hold an extraordinary meeting "as soon as possible" to discuss a dispute about risk provisions that has erupted between two of the bank's senior figures.

HypoVereinsbank, formed from the merger earlier this year between Hypo-Bank and Vereinsbank, said last week it was taking DM3.5bn (\$2.1bn) in provisions for overvalued property deals, mostly in eastern Germany. Albrecht Schmidt, the Munich-based bank's chief executive, formerly of Vereinsbank, blamed unnamed officials who had worked at Hypo-Bank in the 1990s after German unification. But Eberhard Martini, the former chief of Hypo-Bank, called Mr Schmidt's accusation "complete nonsense". Mr Martini is now a member of the merged bank's supervisory board, and banking sources said he had resisted an attempt by Mr Schmidt last week to secure his resignation from that post. Tony Barber, Frankfurt.

DEBT PURCHASE

Help for Ceska Sporitelna

The Czech state is to increase the capital of Ceska Sporitelna, the country's main retail bank, after its disastrous foray into Russian securities. The National Property Fund, which owns 45 per cent of the bank, is to buy Kč5.7bn (\$198m) worth of subordinate debt by the end of this year to prevent the bank's capital adequacy falling under the central bank's 8 per cent minimum requirement.

Ceska Sporitelna's capital adequacy was 8.76 per cent. Ceska Sporitelna, which is slated for full privatisation before the end of 2000, has an exposure of Kč5.2bn to Russia and Ukraine for which it has so far made provisions of Kč1.9bn. It has also had to make additional provisions of Kč3.4bn because of new central bank rules that demand full provisions, regardless of real estate collateral, for all loans overdue by one year. Robert Anderson, Prague.

EQUITIES BUSINESS

Rabobank sticks to plan

Rabobank yesterday repeated its commitment to building an international equities business after the departure of two senior executives, but said it would not be accelerating the operation's "phased development". The Dutch bank said Marcus Grubb, head of equity brokerage, and Charles Glessen, global business manager, had left, but "their departure has no effect on Rabobank International's commitment to building an equities business in our core sectors". These sectors are food and agriculture, health-care and pharmaceuticals, and financial companies.

Rabobank declined to comment on plans for other sectors and said it had not decided whether Mr Grubb and Mr Glessen would be replaced. Clay Harris, London.

Konglomerat
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Properties still on me
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New BHP chief



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October 1998

MEDICA Kliniken Beteiligungs AG

Acquisition of



Equity provider
QCM Partners Ltd.
Vendor
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U.S. \$300,000,000
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For the six months 30th October, 1998 to 30th April, 1999 the Notes will carry an interest rate of 5.15% per annum with an amount of interest U.S. \$260.36 per U.S. \$10,000 Note and U.S. \$6,509.03 per U.S.\$250,000 Note, payable on 30th April, 1999. Listed on the Luxembourg Stock Exchange.

Bankers Trust Company, London Agent Bank

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For further information please contact:
Kirsty Saunders in London
Tel: +44 171 573 4823 Fax: +44 171 873 3204
e-mail: kirsty.saunders@ft.com
or Ciro Costante in Istanbul
Tel: +90 212 279 5350 Fax: +90 212 264 1761

FINANCIAL TIMES
No FT, no comment.

TELECOMMUNICATIONS ROMANIA ALTERS TERMS OF SALE

Telecom Italia and OTE bid for Rom Telecom

By Kevin Done,
East Europe Correspondent

OTE of Greece and Telecom Italia have submitted competing bids to acquire substantial minority stakes and management control in Rom Telecom, the state-owned Romanian telecommunications utility.

However, it is understood that the tender process, which was due to have closed at the weekend, has been thrown into confusion by last-minute changes in the contract conditions made by the Romanian government last Thursday.

Instead of the binding bids that were due to have been submitted, it is understood that the two rivals have submitted only conditional bids. This will make further negotiations necessary in Bucharest on the deal, which is regarded as a key move in restarting Romania's stalled privatisation process.

Separately, in Bulgaria,

the government has postponed the deadline for bids to acquire a 51 per cent stake in Bulgarian Telecommunications Company by two months, from the end of November to January 28, to allow potential bidders more time to discuss terms and conditions.

Four west European telecommunications groups are conducting a due-diligence studies in Sofia: OTE and Telecom Italia, which are both pursuing aggressive strategies in southern central Europe and the Balkans, Deutsche Telekom and KPN, of the Netherlands.

The German and Dutch groups also expressed interest early in the tender process in Romania, but pulled out because of uncertainties and delays. Successive Romanian governments have failed to implement economic reforms and a successful privatisation of Rom Telecom has become a critical test for the centre-right government of prime minister Radu Vasile formed earlier this year.

Last month, Sorin Dimitriu, privatisation minister and long-time head of the State Ownership Fund, was dismissed by the prime minister in an effort to speed up the privatisation process.

Mr Vasile has taken over the co-ordination of the Rom Telecom deal and heads a committee which includes the Justice, communications, finance and defence ministers to push through the sale.

It is understood that late last week the Romanian authorities made concessions on the licence conditions, including changes to the terms of key clauses covering safeguards to guarantee the period of monopoly on fixed line services. The changes came too late, however, to be taken into account in the binding bids, which were due to be submitted last Saturday.

Celsius sales rise 27%

Celsius, the Swedish defence group, said yesterday it was leaving its 1998 forecast for profit unchanged at SKr500m (\$64m), after it posted a nine-month profit after financial items of SKr387m compared with SKr266m in the same 1997 period. Reuters reports from Stockholm.

Sales rose 27 per cent to SKr3.2bn but order intake fell 12 per cent to SKr7.42bn. After adjustment for non-recurring items, operating

income reached SKr1.81bn, an increase of SKr0.6m over the corresponding period last year.

"Income after net financial items is expected to exceed 500m crowns for the full 12-month period, which is in line with the earlier forecast," Celsius said.

Lars Josefsson, chief executive of Celsius, said the improvement was generated mainly by the group's two core business areas, defence and commercial aviation services.

"The lower level of orders received can be attributed in part to the fact that the corresponding period last year featured several major defence-related orders, such as continued series deliveries of the CV90 combat vehicle and refits for submarines sold to the Singaporean Navy," he said. Celsius' B-shares closed up SKr1 at SKr1.83.

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TELECOMMUNICATIONS FIRST PACIFIC IN TALKS TO BUY 'SIGNIFICANT PROPORTION' OF SHARES AFTER ACQUIRING STRATEGIC HOLDING

HK conglomerate confirms stake in PLDT

By Louise Lucas in Hong Kong and Tony Tassell in Manila

First Pacific, the Hong Kong-based conglomerate, yesterday broke its silence over Philippine Long Distance Telephone, confirming it had amassed a strategic stake in the carrier and is in talks to acquire further shares.

The confirmation ends nearly two months of speculation about First Pacific's interest in the Philippines' dominant telecommunications provider, but the final form of any deal remains uncertain.

Southwest Bell of the US has expressed interest in PLDT, and others also could take a stake, possibly as a partner to First Pacific to reduce the costs of acquiring control.

First Pacific said yesterday

it was in talks with various parties to buy a "significant proportion" of shares in PLDT. The group is believed to have been negotiating a deal with the Conjuangco family, which controls a 21 per cent stake.

It is also understood to have held talks to acquire a 10 to 15 per cent stake owned by two government institutions.

Analysts estimate that at

current market rates it would cost First Pacific about \$1bn to acquire a 36 per cent stake in PLDT plus any premium for the purchase of a controlling stake.

First Pacific could raise its stake further through the merger of Smart Communications, its cellular telecoms subsidiary in the Philippines, into PLDT through a share swap.

That would allow for syn-

ergies between the two operators, respectively the country's biggest fixed-line and cellular carriers.

Smart has a 52 per cent share in the cellular market and 5 per cent of the fixed-line market. PLDT has about 72 per cent of the fixed-line market, dominates international telecoms out of the Philippines, and controls about 20 per cent of the cellular market through its sub-

sidiary Pilipino Telephone. "PLDT would leap-frog First Pacific into market leadership in the Philippines," said David Gibbons, regional telecoms analyst at HSBC Securities.

Manuel Pangilinan, managing director of First Pacific, said the company, which spent last year investing non-core activities, had built a cash pile worth \$750m.

LTCB rapped over payouts to affiliates

By Gillian Tett in Tokyo

Bank of Japan and Bank of Tokyo Mitsubishi.

The issue of "hidden" losses at Japanese banks and brokers first attracted attention last year, when it emerged that Yamaichi Securities, Japan's fourth largest broker, had concealed some of its losses by shuffling them between accounts in a practice known as *nobashi*.

Japanese media have reported that the Financial Supervisory Agency, the banking watchdog, found that LTCB made "hidden" payments of about Y120bn (\$1.1bn) to cover debts held by Japan Leasing, an LTCB affiliate. Japan Leasing paid the money to Norinchukin, an agricultural bank with strong links to the ruling Liberal Democratic Party.

LTCB and the FSA have refused to comment publicly on the reports. However, LTCB has denied it deliberately hid any losses and said it did not believe that the transactions needed to be reported under Japanese accounting law.

The FSA says the difference stems partly from unrealised losses on LTCB's equity portfolios. However, some officials have indicated to local media that LTCB had not reported all of its transactions between subsidiaries in earlier accounts - including its dealings with Japan Leasing.

However, concern about such losses re-emerged last month when the Financial Supervisory Agency, Japan's banking watchdog, found that LTCB has a capital deficit of more than Y200bn. This conflicts with LTCB's earlier claim that its assets exceeded its liabilities.

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Nevertheless, the reports may fuel investor cynicism about the quality of Japanese accounting. They could also add to political controversy over the state of LTCB's finances in the run-up to its nationalisation.

The timing of the nationalisation has not yet been decided, but the government has appointed a new management team for LTCB which will assume control in the coming days. This includes officials from the Bank of Japan, Industrial

and Commercial Banks.

NEWS DIGEST
COSMETICS
Shiseido to enter Russian market next year

Shiseido, the leading Japanese cosmetics group, will next year begin sales of skin-care and make-up products in Russia with Hermitage, a local distributor. The move, which is the latest step in the group's aggressive overseas expansion, will make Shiseido the first Japanese cosmetics company to enter the Russian market. Shiseido expects the Russian venture to generate Y150m (\$1.2m) in turnover on a wholesale basis by 2000.

The group, which last year reported earnings after taxes of Y16.87bn on sales of Y620.91bn, has been rapidly expanding into markets in Europe and Asia. It hopes to generate 25 per cent, or about Y200bn of its turnover overseas by 2000. In the year that ended in March, sales outside Japan accounted for 15 per cent of total turnover.

Alexandra Harney, Tokyo

MACQUARIE BANK**Sultan of Brunei cuts holding**

The Sultan of Brunei is selling most of his 13 per cent stake in Macquarie Bank, Australia's only investment bank. Macquarie Equities, the bank's broking arm, said last night it was placing about 16m Macquarie Bank shares, or 75 per cent of the Sultan's holding, mainly with domestic institutions at \$12.80 a share, to raise about US\$12.7m. Some shares would be reserved for overseas fund managers, it said. The Sultan's plan to retain a 3 per cent stake in Macquarie would leave him as the largest single shareholder. Reasons for the sale were not disclosed.

The Sultan held the Macquarie Bank stake through the Brunei Investment and Commercial Bank and the Brunei Investment Agency, which controls the sultanate's overseas assets and was formerly headed by Prince Jeji Bakar, the Sultan's brother who is under investigation for alleged misuse of state funds.

The stake was acquired in late 1996 at \$7.60 a share. On Monday, Macquarie shares fell 19.6 cents to close at \$13.44 - above \$11.80 at the beginning of the year, but below the year's high of \$15.60 in April - before news of the placement. Analysts suggested the Sultan, who has recently sold various assets, was moving to rationalise further his investments. Gwen Robinson, Melbourne

Redchips still on menu as other dishes lose their savour

Despite high debts, the China-backed groups are set to avoid liquidation and remain popular with investors, says Louise Lucas

Their parents, upon whom they open an investment window, are riddled with debt. Credit is tight. Yet share prices of the redchips, or mainland-backed Hong Kong companies, are rising and their resilience, in the wake of the collapse of Guangdong International Trust & Investment Company (Gitic), highlights the differences between the two sectors.

The Itics, investment agencies of provincial governments, have already seen their ranks depleted, from 800 in 1995 to 340. Jing Ulrich, China analyst at CLSA, thinks these will be further culled, to about 25. In contrast, redchips, which are listed, report to a mix of provincial governments or directly to ministries in the central government, have grown to almost 50.

While both have been big borrowers - Goldman Sachs reckons total banking exposure to the redchips could exceed that to the Itics - the redchips are not seen as being within the scope of Beijing's goal of overhauling the financial sector.

"Clearly, the government

is trying to limit the negative impact of the Itics restructuring as much as possible. They want to make sure banks in Hong Kong won't be affected," says Charles Cheung, China analyst at Salomon Smith Barney.

Hong Kong-based banks, which have exposure of HK\$55bn (US\$7.1bn) to Itics, according to the Hong Kong Monetary Authority, the de facto central bank, would take a bigger hit if redchips began a default en masse.

Goldman Sachs estimates that the aggregate debts of big redchips stands at HK\$100bn, or 3 per cent of total loans in the banking system assuming they were all arranged in the territory. Much of this lending, like others to China-based companies, lacks the hallmarks of prudent banking.

Government guarantees - thrown into doubt by the Gitic failure - were used as a comfort catch-all, and even a month ago redchips were securing syndicated loans at Libor (London interbank offered rate) plus 150 basis points, lower than some blue chips are able to obtain.

It will continue to be tight and refinancing difficult for three to six months," says Mr Cheung.

This may be less of a problem for the redchips, some of which, particularly those that listed towards the end of last year and were denied the same opportunities as their spendthrift precursors, are in a net cash position.

But the redchips' role has been two-fold: a window on China for foreign investors and a window on international capital markets for China. Their parents often carry heavy debt burdens, with net equity-to-debt ratios of more than 100 per cent.

Much of this was hidden by the excesses of 1996 and 1997 but, as the Itics have discovered, asset values have plummeted. Dalliances

with Hong Kong luxury villas, hotel companies and chain stores have seen the asset side of the equation plunge while the debts rise.

Some of these mismanagement issues could be resolved by the Gitic failure - possibly one of the factors giving heart to investors. Some big redchips may require recapitalisation, but it is unlikely Beijing will pour in funds without making management changes and rewriting strategies. Smaller redchips in a similar position may simply be wound up.

Secondly, the pruning of the Itics will switch the focus to redchips. In the southern province of Guangdong, for example, consolidation of the window companies will eliminate much of the inter-province competition for projects and funds.

These benefits are further down the line, and the more likely explanation for the rise in share prices, says Mr Pinkel, is China's big upgrading in two IFC indices.

From today, China's weighting in the emerging markets' index will rise from 0.6 per cent to 2.4 per cent, and from 2.7 per cent to 10.7 per cent in investable emerging Asia.

And perhaps the resilience of the redchips also has a lot to do with Hong Kong's own role as a very particular regional financial centre - one based in a region where there is little incentive to lend up.

Says Mr Cheung on being a Hong Kong bank: "If you don't lend to property companies and redchips, who do you lend to?"

New BHP chief signals changesBy Gwen Robinson
in Melbourne

Chief executive Paul Anderson (left) meets staff at BHP's Melbourne headquarters

Bank shows faith in Hong Kong

By Louise Lucas

The China Construction Bank, one of the mainland's big four banks, has increased its stake in Hong Kong-based Jian Sing Bank from 40 per cent to 70 per cent.

The move comes as Hong Kong's smaller banks have been under pressure from higher interest rates - which have softened in recent weeks - and flat loan growth. Non-performing loans have also been rising.

China Construction Bank said yesterday its decision to exercise an option giving it a 70 per cent stake in the bank demonstrated its "confidence in the Hong Kong Special Administrative Region remaining as an international financial centre and in its future economic development".

China Construction Bank, which separately is involved in the mainland's pioneering investment banking joint venture with Morgan Stanley Dean Witter, first acquired an interest in Jian Sing - then known as Hong Kong Industrial and Com-

pany - in 1991 to US\$1.7m, showed long-term commitments to its job and to shareholder value.

Rumours of Mr Anderson's appointment boosted BHP's share price from A\$12.32 in mid-October to A\$13.80 on Friday. On Monday, however, after rising to a three-month high of A\$13.87 on the news, investors took profits and the stock fell to A\$13.16.

Analysts said the slump was due to overbuying on rumours of the appointment

and they predicted a positive shift in market sentiment would soon buoy the stock.

Mr Anderson indicated he

would continue BHP's asset

disposal programme to sell another A\$4bn in non-core assets over the next two years.

New strategies would depend on reviews, but he suggested there would be greater emphasis on the group's main areas of business: petroleum, mining and steel.

Externally, you're not going to see much in the near term. But in the near term, internally, there will be a lot of changes," he said.

He did not rule out the possibility of breaking up the group and noted that he had had "quite a lot of experience" in spinning off divisions.

His appointment ended months of speculation about the group's direction, after management resignations, a falling share price, deteriorating profits and weakening commodity markets. In the year to May, it reported an

unprecedented net loss of A\$1.47bn (\$1.65bn).

Demands from dissatisfied shareholders for a management change culminated in the April resignation of John Prescott as chief executive.

Mr Anderson, 53, is currently president and chief operating officer of Duke Energy, formed last year in the merger of PanEnergy and Duke Power.

He said his time at Duke and PanEnergy, during which the group's stock rose

from US\$10 in 1991 to US\$71, showed long-term commitments to his job and to shareholder value.

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COMPANIES & FINANCE: THE AMERICAS

UTILITIES CMS IN \$2.2BN PIPELINE BUY AS PP&L ANNOUNCES PURCHASE OF 12 GENERATING STATIONS FROM MONTANA POWER

Restructuring continues in US power sector

By Christopher Parkes
in Los Angeles

Leading utilities yesterday announced asset sales worth almost \$4bn in a fresh burst of restructuring in the US energy industry.

CMS Energy Corporation paid \$2.2bn for pipelines supplying its main markets in the midwest, while PP&L of Pennsylvania is to buy a dozen Montana Power electricity generating stations supplying

fast-growing western markets.

The deals are part of efforts to take up and strengthen strategic regional positions as deregulation of the power industry spreads across the country.

CMS, which owns Consumer Energy, the leading utility in Michigan, paid Duke Energy, based in North Carolina, \$1.8bn in cash and assumed \$300m in debt for the Panhandle Eastern Pipeline Company.

The assets include almost 11,500 miles of pipeline which extend from the Gulf of Mexico oil and gas fields and coastal storage facilities to Michigan, and a shorter link to production facilities in Oklahoma and Kansas.

These lines will connect directly to regional networks controlled by CMS, and increase the group's distribution holdings to 22,000 miles of pipeline and 20,000 miles of oil and gas gathering systems on four continents.

William McCormick chairman, said the deal would increase CMS's profits immediately on completion, and analysts said the company was likely to benefit more in future as natural gas continued to gain share from coal in power generation.

Duke, which has more than \$24bn in global assets, said it would reinvest the proceeds in other areas.

Montana Power, which has announced plans to buy back up to 18 per cent of its

shares and is focusing on power transmission, said PP&L had agreed to pay \$1.8bn for 12 of its generating plants plus a majority stake in a joint-venture coal-fired station.

The deal is an ambitious step for PE&L, a relatively small eastern utility, which is moving into a region where deregulation is more advanced than in other parts of the US.

The Montana plant is an important source of power

for an area including California, which opened its markets to free competition earlier this year.

Yesterday's deal, which included 11 hydroelectric plants, also gave PE&L control of the Colstrip generating plant, rated the second biggest in the west, with more than 3,200 MW in capacity.

The company plans to borrow 65 per cent of the consideration and issue bonds to cover the balance.

Citigroup casts off Noah's ark legacy

Bank has problems over integrating SSB, write John Authers and Tracy Corrigan

Analysts trying to make sense of the mess at Citigroup, the vast financial company created by last month's merger of Citicorp and Travelers Group, must decipher both personal and strategic issues within the group.

At the weekend, Sandy Weill and John Reed, Citigroup's co-chief executives, announced a change of course in integrating the Salomon Smith Barney investment bank with Citibank's vast corporate banking business.

Jamie Dimon, Citigroup president, resigned, while Deryck Maughan, the former Salomon chief executive who was running the corporate and investment banking business in conjunction with Mr Dimon, was named vice-chairman of Citigroup, reporting to Mr Reed and Mr Weill.

Meanwhile, Victor Menezes, formerly a co-chief executive of corporate banking with Mr Maughan and Mr Dimon, continues in charge of the merged corporate bank, now working with a new co-chair executive, Michael Carpenter, formerly of Travelers' insurance arm.

Nobody on Wall Street was expecting the move, and Mr Dimon's departure, in particular, created shockwaves.



Reversal of fortunes: Jamie Dimon, left, resigned while Deryck Maughan was named vice-chairman

Institute of Technology, he built his career in Citicorp's sprawling emerging markets business.

As co-chief executive of the corporate and investment banking businesses, he will focus on emerging markets and transaction banking, while Mr Carpenter will focus on the brokerage and capital markets businesses.

As Michael Mayo, analyst at Credit Suisse First Boston, put it: "Their management structure was a little bit like Noah's Ark. They brought a lot of people along two by two. So you are going to see some shake-out due to management structure that's still somewhat top-heavy."

But several of the market's assumptions about how Citicorp will be run have now been called into question. First, and most clearly, was the idea that Jamie Dimon, the sole president of Citibank's

group, was the clearly anointed heir apparent.

Now, analysts must factor an uncertain succession into their assessment of Citicorp's prospects.

Secondly, it had been assumed that Travelers had become a "more equal" partner than Citicorp. Last month, the corporate restructuring created four senior executives to run the US operations, all drawn from the former Travelers.

The latest announcement seems to suggest the former Citicorp may well be the dominant partner in the new bank that emerges, given both its lack of big losses and its expertise in emerging markets.

A third problem for Wall Street is that confidence in Mr Weill's famed ability to squeeze costs out of acquisitions has been badly dented. Several analysts said this was the first merger Mr

Weill has carried out which was not an acquisition of a firm in trouble. His trademark cost cuts will be much harder than usual.

The dent in the credibility of Citicorp's long-term strategy could prove the most damaging. The incident appears to prove that there was no settled plan on how to merge Salomon Smith Barney into Citibank. Mr Reed and Mr Weill will now be placed under much greater pressure to find cost savings swiftly.

As one analyst put it yesterday: "The Street has been prepared to give this company the benefit of the doubt - and a higher multiple - because people hoped that Sandy had a template that the market hadn't figured out, on how he was going to make this thing work. Five months later, people realise he didn't have a card up his sleeve."

Empire to buy rival Oshawa

By Scott Morrison in Toronto

Empire, the Canadian food retailer, has agreed to acquire the rival Oshawa Group for C\$1.5bn (\$970m) in cash and shares.

The acquisition would be completed through Empire's Sobey's chain and would position the company as the second largest Canadian food retailer and distributor with annual revenues of about C\$10bn.

The transaction would leave Canada with three substantial supermarket groups. Loblaw, the biggest, last week announced it would acquire Provigo, the largest Quebec chain, for C\$1.6bn. US-owned Safeway, which has a strong presence in western Canada, is the third.

Consolidation in the Canadian supermarket industry mirrors similar moves by US food chains fighting to retain market share against discount retailers such as Walmart, the US group. The recent deals among Canadian grocery chains were seen as defensive, with analysts saying it was only a matter of time before Walmart made its presence felt in Canada.

A possible settlement, debated between the government and most opposition parties, may include a \$3bn scheme to provide new discounts to struggling debtors. Bankers said they hoped a bill would go to Congress by November 15.

of the five members of the Wolfe family, which controls 80 per cent of Oshawa's voting shares, have agreed to tender their stakes.

Empire would also offer C\$36 for non-voting shares, which represents a 10 per cent premium over Friday's closing price. Empire said its offer consisted of 73 per cent in cash, or about C\$1.02bn, and 27 per cent in shares.

Officials from both companies said the transaction would enable the new company to establish a national presence capable of operating in the increasingly competitive food retail and distribution market. Empire's Sobey's chain, the largest retailer in eastern Canada, has been expanding into central provinces.

Oshawa, which was formed by the Wolfe family 85 years ago and grew into the country's second largest food retailer and distributor, had been rumoured as a takeover target for several months. While performing well in western Canada, the group has struggled to make profits in Ontario and group earnings have been flat for the past decade. Analysts said the company had failed to expand and upgrade its IGA supermarkets to compete with superstores.

MEXICO BANAMEX AND BANCOMER REPORT

Mixed results offer banks some comfort

By Henry Trick in Mexico City

A sudden rise in interest rates blew a nascent recovery in Mexico's banks off track in the third quarter, but there were tentative signs the year may end with good news for the beleaguered banking industry.

Beset by trading losses after international financial turbulence reached Mexican markets in mid-August, Mexico's two largest banks, Banamex and Bancomer, reported mixed third-quarter results late last week.

Banacel, Banamex's parent company, had a three-month loss of 780m pesos (\$78m), though in the year to September it had profits of 1,514m pesos. Grupo Financiero Bancomer lost 227m pesos in the quarter, and 282m pesos over the first nine months.

The losses were less than analysts had expected, partly because Mexico's National Banking and Securities Commission introduced rules enabling banks to remove some of their security investments from trading accounts, which mitigated the effects of a sharp drop in stock and bond

prices during the quarter.

Bankers also touted an improvement in the operating performance of the banks because of higher net interest margins - the bedrock of a bank's profitability - though this was partly a side effect of higher interest rates.

There were also some unpleasant surprises, analysts said, notably steep losses from both banking group's long-distance telephone subsidiaries, struggling to compete with the dominant carrier Telmex.

For the banking sector as a whole, getting over the upset of the third quarter hinges on two crucial questions: How will interest rates decline? And how will the government settle a protracted political battle over the cost of bailing out the banks in the past three years?

The rise in interest rates in September to real levels well above 20 per cent led to a 4.1 per cent contraction of Bancomer's loan portfolio in the quarter. Banamex's lending also declined slightly, though Jorge Hierro, an executive, said it partly managed to offset the fall in peso

loans by offering dollar credits to top-tier clients.

The credit contraction was particularly galling to the banking sector, since it had only begun to lend again this year after a three-year hiatus. During October interest rates eased, but not necessarily enough to revive lending, analysts said.

"If we continue with real rates of 20 per cent, you're going to see no loan growth whatsoever," said Carlos Gomez, a bank analyst at CS First Boston, the investment bank. "But if they go down to, say, 5 per cent, loan growth could be significant."

Equally important for the banks is a swift resolution to the so-called Fohapora dispute, named after the government trust fund that has spent more than 550bn pesos bailing out the banks to the outrage of opposition parties in Congress, who claim they were not consulted.

A possible settlement, debated between the government and most opposition parties, may include a \$3bn scheme to provide new discounts to struggling debtors. Bankers said they hoped a bill would go to Congress by November 15.

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NEWS DIGEST

MEDICAL DEVICES

Medtronic pays \$3.6bn for Sofamor Danek

Medtronic, a US maker of medical devices, yesterday said it had agreed a takeover of Sofamor Danek, another US medical devices maker, for \$3.6bn in stock. The deal will turn Medtronic, already the world's leading supplier of implantable cardiac devices, into the leading supplier of devices used by spine surgeons.

Sofamor's shareholders will receive \$115 in Medtronic stock for each share they own, subject to Medtronic's stock price averaging \$56.97 to \$69.63 in the run-up to shareholder approval of the deal. In early afternoon trading yesterday, Medtronic's shares were up 2% at \$65.25, and Sofamor's, which had risen sharply over the last few days, were up 8% to \$110.5.

Medtronic, based in Minneapolis, is best known for making devices that control heart rhythms such as cardiac pacemakers and heart defibrillators, but it also has a division specialising in neurological products. The acquisition of Sofamor will greatly increase its presence in the fast-growing market for neurological products. Medtronic said that worldwide an estimated 5m suffered from debilitating back pain and more than 275,000 surgical procedures were performed each year.

Sofamor Danek, the product of a 1993 merger between Danek Medical of the US and Sofamor of France, supplies a number of products used to treat disorders of the cranium and spine.

The takeover differs from other recent deals in the medical devices industry, most of which have been driven by a desire among high-growth pharmaceutical companies to quit low-growth orthopaedic products businesses making replacement hip and knee joints.

Richard Tomkins, New York

STOCK TRADING SYSTEMS

Nasd, Amex complete merger

The National Association of Securities Dealers (Nasd) and the American Stock Exchange (Amex) announced yesterday the completion of their merger, having gained the necessary regulatory approval. The newly formed entity, now known as The Nasdaq-Amex market group, will operate as a subsidiary of the Nasd. The merger combines the second and third largest stock trading systems in the US, bringing under one management the Nasdaq's electronic market and Amex's floor-based trading system.

Frank Zarb will lead the newly formed group and will remain chairman and chief executive of the Washington DC-based Nasd. Richard Syron will continue as chairman and chief executive of Amex.

The executives did not rule out the need for future job losses, but announced none in the near term. They also said the now separate operations of the Amex and Nasd would be consolidated and that sites in New York and neighbouring New Jersey were being considered.

John Labate, New York

TELECOMMUNICATIONS

Revamp hits CANTV

Third-quarter net profits at Compañía Anónima Nacional Telefónica de Venezuela (CANTV), the telecommunications company, fell sharply to \$37m, down significantly from last year's \$127m. Net earnings per American Depository Shares (ADS) fell from \$0.89 to \$0.26. The company attributed the fall to a restructuring of domestic and long-distance tariffs as well as an increase in provisions on uncollectables by Bs38.3bn (\$67m) over the corresponding period.

Santos Erminy, an analyst with Activator, a local brokerage, said the increase was part of CANTV's intent to "clean" its financial accounts. Among other measures, CANTV has shortened the grace period before cutting off late-paying customers. Other analysts suggest the increased provisions reflect weaker purchasing power of CANTV's customers, provoked by a downturn in economic activity. GDP growth forecasts for 1998 have fallen from 5.5 per cent to negative 1 per cent.

CANTV said the number of telephone lines and public telephones increased by 3.2 per cent and 18.5 per cent respectively, during the quarter. Domestic long distance traffic increased 8 per cent from 827m minutes to 678m. The volume of local calls increased by 19 per cent. Yet third-quarter net sales were down from \$586m in 1997 to \$501m this year. Under an agreement with the government, CANTV has been eliminating cross-subsidies by increasing local rates and decreasing international and domestic long-distance rates.

CANTV is one of the most-traded shares on the Caracas stock exchange. Yesterday they were unchanged after losing ground last week in response to an advance warning by the company on its latest results.

Raymond Collett, Caracas

INVESTMENT BANKING

CIBC buys stake in IT adviser

CIBC Wood Gundy Oppenheimer, the Canadian-owned investment bank, has taken a minority interest in Interregnum Venture Marketing, an adviser to information technology companies. Interregnum, a UK-based consultancy with representatives in San Francisco, Silicon Valley and Boston, identifies commercial opportunities and helps to find investors for growth companies, in part return for which it receives minority equity stakes. It has more than 20 such positions.

The new funds will enable Interregnum to hire more senior managers and expand US-based services for European clients. The link will also give access to the Canadian Imperial Bank of Commerce subsidiary's advisory and financing expertise. Clay Harris

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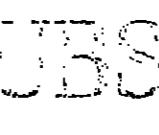
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BANKING UK INVESTMENT BANK BECOMES A LEADING ADVISER TO MEDIUM-SIZED COMPANIES IN GERMANY AND AUSTRIA

Close Brothers buys Freyberg Hambros

By Clay Harris

CLOSE BROTHERS GROUP, the UK investment bank, has moved to establish itself as a leading adviser to medium-sized German and Austrian companies by buying a majority stake in Freyberg Hambros, a Frankfurt-based corporate finance house.

The German firm, to be renamed Freyberg Close Brothers, was set up in 1991 as a joint venture involving Hambros, the UK merchant

bank which was broken up and sold this year. Close Brothers bought its stake from South Africa's Investec, which took over Hambros' investment activities.

John Llewellyn-Lloyd, chief executive of Close Brothers Corporate Finance, said the deal put the UK bank in a strong position to advise Germany's *Mittelstand*, both in its restructuring as a result of generational change and through the sector's increased used

of capital markets. The link was aimed at transactions within Germany and only secondarily at cross-border investment activities.

Defining the *Mittelstand* as the 42,000 German companies with turnover between DM25m (£15m) and DM1bn and employing fewer than 500 people, Close Brothers said the sector accounted for half of business turnover and 70 per cent of the workforce. Three-quarters were family owned or tightly held

and two-thirds were managed by their owners.

Ernst von Freyberg, the German firm's founder, said the deal would enable it to escape from the trap of being too small. "Boutiques" don't grow, because they are not able to attract and keep good people," he said.

The arrival of Close Brothers put the firm on a more "corporate" basis, giving prospective staff "a clear signal that there is life after Ernst von Freyberg".

Although Mr von Freyberg, 40, is not planning to leave, he said retention and recruitment had suffered since it became clear the Hambros connection was soon to end. Hambros, in any case, had only been a financial investor, and the two firms had never undertaken joint marketing.

Mr von Freyberg said he had approached Close Brothers when it became clear that other suitors were treating courtship as only a headhunting exercise. Freyberg Hambros had advised on more than 60 deals.

As a result of yesterday's deal, Close Brothers owns 50 per cent plus one share. It bought Hambros' 47 per cent stake and 3 per cent plus one share from Mr von Freyberg. The price was not disclosed.

Natexis, the French bank, holds 9.5 per cent; the other 40.5 per cent is split between Mr von Freyberg and the other managing partner, Sandrine Rebut.

Williams' link-up talks with Tyco break down

By Charles Pretzlik

WILLIAMS, the former conglomerate which has transformed itself into a security and fire protection group, yesterday said it had been in talks about a link-up with Tyco International, the US conglomerate.

In a statement to the Stock Exchange, Williams said it had "exploratory discussions with Tyco International Ltd about a range of options for the combination of their respective fire and security businesses." However, it added: "These discussions have been terminated." Tyco issued a separate but similar statement.

The announcements were prompted by a sharp rise in Williams' share price after weekend speculation that a deal was being planned. The shares closed up 12.5p at

385p, after falling back on the announcement. This values Williams at £2.8bn (£4.7bn) compared with Tyco's market capitalisation of \$24bn.

Tyco, based in Bermuda and New Hampshire, is the world's largest maker of fire protection systems and services. Last year it bought the ADT security and alarms group from Michael Ashcroft.

Analysts said the announcements could weaken Williams, putting its strategy in question. "It is a recognition that the world is moving beyond what Williams can offer but, having identified the need, the talks broke down," one said.

Last year Williams bought Chubb, the locks and security business, and is anxious to expand its fire and security services.

The discussions are understood to have included several ways the two could have joined forces, from a joint venture to a takeover of Williams by Tyco. Other options are understood to have included a merger or pooling their fire and security businesses into a new company which would have been spun off separately.

A resumption of talks has not been ruled out. Tyco does not have a habit of going hostile.

The talks broke down because the valuations being informally suggested by Tyco were considered insufficient. However, no formal offer was made. They were held at a senior level, with Sir Nigel Rudd, Williams' chairman, and Roger Carr, chief executive, meeting Tyco's chairman, Dennis Kozlowski.

By Michael Skapinker

BAA yesterday announced first-half pre-tax profits down 1 per cent to £207m (£519m), largely because of the cost of the Heathrow Express train service, which is carrying fewer passengers than expected.

The airport group's results were, however, in line with expectations and the shares rose 22p to 894.5p. Passenger growth was strong, with traffic up 7.6 per cent in the six months to September 30.

Sir John Egan, chief executive, said he expected 7 per cent traffic growth for the full year, failing to 4.6 per cent next year. Profits were also affected by a repassing of airport charges from the first to the second half.

Turnover was up 22 per cent to just over £1bn, boosted by the acquisition of

World Duty Free America and Naples airport.

Although earnings per share before exceptional items were down slightly to 22.7p (23.8p), BAA lifted the interim dividend 8.2 per cent to 5.3p.

The Heathrow Express, which runs to London's Paddington station, is carrying an average of more than 10,000 passengers a day, compared with a target of 13,000.

The service, which was launched in June, made a £2m loss but is expected to break even by the year-end. This compares with an initial target of £7m-£8m profit.

Interest on the project was capitalised until its opening, but is now charged to the profit and loss account, costing BAA £10m. Sir John said customer satisfaction with the service was high but most passengers were from

the UK. BAA would now target overseas visitors.

Sir John said plans to build a fifth Heathrow terminal had again been postponed because of the duration of the public inquiry.

He said that while he remained confident the terminal would win planning approval, he did not expect a decision until 2001. The terminal would not open before 2006.

Growth at Gatwick and Stansted had helped to take the strain off Heathrow, which was now overloaded.

Sir John said he had not lost hope that the abolition of intra-European duty-free sales, scheduled for next year, would be postponed. BAA will be allowed, under its regulatory regime, to recoup 70 per cent of the business lost through increased airport charges.

COMMENT

BAA

Normal companies suffer when their customers hit a brick wall. But BAA tends to thrive when airlines press the self-destruct button. Airlines heading into economic turbulence with too much capacity have to cut prices. Yields suffer, but BAA still benefits from reasonable passenger volumes. This time round, though, BAA may share more of the pain. Passenger traffic at BAA is certainly buoyant, up 7.6 per cent for the half year. But hopes that it could remain at a robust 5 per cent next year as the cycle heads south could prove optimistic. After all, several airlines appear to have kicked their addiction to growth. Aircraft on order accounted for more than 20 per cent of the world's fleet in 1998. It was just under 10 per cent last year. And British Airways, which accounts for 35-40 per cent of BAA's traffic, is planning only modest, if any, capacity increases.

A further wrinkle in yesterday's good set of results is BAA's increasing exposure to currency volatility. The acquisition of Duty Free International means BAA now has both dollar and sterling strength to blame when spending per passenger dips. Getting bigger means BAA improves its negotiating power, but suppliers too are consolidating. BAA remains a core defensive stock with an enviable record of strong earnings growth. But with some of its ventures - Heathrow Express, World Duty Free Americas - slightly underperforming, the company does not deserve more than its modest market premium.

Williams

Talks are off between Williams and Tyco International, but that is surely not the last word on the matter. Some tie-up between the two makes sense, combining Williams' European markets and Tyco's US presence. The trick is what shape this would take, given that only part of Tyco fits with Williams. Transatlantic joint ventures can be tricky to manage. An injection of Tyco assets into Williams in return for an equity stake may seem neater, but could prove less palatable for Tyco. Williams shares have slightly underperformed the market over the past year, despite the radical corporate surgery undertaken by the management. The wonder is why Tyco, with its more highly-rated paper, does not strike now with a hostile bid. Williams is lucky Tyco seems to shrink from such violence.

AB FOODS would now target overseas visitors.

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Losses on Heathrow Express cut back BAA

By Michael Skapinker

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Turnover was up 22 per cent to just over £1bn, boosted by the acquisition of

AB Foods planning US expansion

By Alison Smith

ASSOCIATED BRITISH FOODS plans to expand in North America by buying small companies whose technologies it can expand into new products and markets.

"We want some smaller companies with technology we can grow," said Garri Weston, chairman. "The US

has a lot of small companies, such as family businesses, that we can buy relatively cheaply." Last month, it bought SPI, which makes pharmaceutical ingredients and supplies polyols used as sweetening agents.

His comments came as ABF announced first-half pre-tax profits of £519m (£519m), for the year to September 12. This

compared with £550m in 1997, £424m of which came from the sale of the group's Irish retailing business and its Australian adhesives operation. Operating profits on continuing businesses fell from £242m to £216m.

Mr Weston said the high level of sterling had cut profits by £37m, and there were also exceptional provisions of £19m. He said the company would appeal against the £28m fine imposed last month by the European Commission on British Sugar and three other UK sugar companies for alleged price fixing in the late 1980s, before British Sugar was bought by ABF.

The shares rose 29p to 589p.

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Deutsche Post deal with Securicor

By Thorold Barker

Deutsche Post, the German state-owned postal service, is paying \$223m (£87.3m) for a 50 per cent stake in Securicor's UK parcels distribution business.

The joint venture, which will trade under the name "Europack" and will only serve the business-to-business market, is likely to be followed by further deals in the run up to Deutsche Post's planned privatisation in 2000.

The joint venture with Securicor, the distribution, security and telecommunications company, will give it

courier company, earlier this year, was in response to its customers' growing international requirements.

The joint venture, which will trade under the name "Europack" and will only serve the business-to-business market, is likely to be followed by further deals in the run up to Deutsche Post's planned privatisation in 2000.

The joint venture with Securicor, the distribution, security and telecommunications company, will give it

access to one of the strongest parcel distribution networks in the UK and Ireland.

Roger Wiggs, chief executive of Securicor, said that its existing European parcels business was relatively small and that the joint venture gave the opportunity to grow with Deutsche Post in a rapidly expanding part of the market. Mr Wiggs said he expected the cross-border parcel market to grow at about 15 per cent a year, against about 5 per cent for the UK internal market.

The proceeds of the sale might be used to support investment in Cellnet, its 40 per cent-owned mobile telephone network, or to expand its security business, Mr Wiggs said.

A return of excess capital to shareholders might also be considered.

Paul Marsh, an analyst at Morgan Stanley Dean Witter, said: "The deal values the Securicor distribution business at a 33 per cent premium to our estimates and gives an improved outlook

for the business."

Securicor has put options enabling it to sell the remaining 50 per cent to Deutsche Post after seven years or if it is taken over.

Deutsche Post, advised by Deutsche Bank, while Securicor was advised by Lazard Brothers.

The announcement included a trading statement that pointed to profits in the distribution division being lower than last year, due to new investment and the economic slowdown.

Imperative for a Europe-wide parcels service

Andrew Edgecliffe-Johnson and Graham Bowley report on Deutsche Post's transaction with Securicor

The parcel delivery business has come a long way since the 1980s, when Securicor's cars started carrying the odd package as they did the rounds of their high street banking customers.

Yesterday, the industry took a further step forward with the purchase by Deutsche Post of a 50 per cent stake in Securicor's UK parcels business, the latest element in the German postal service's planned Europe-wide distribution network.

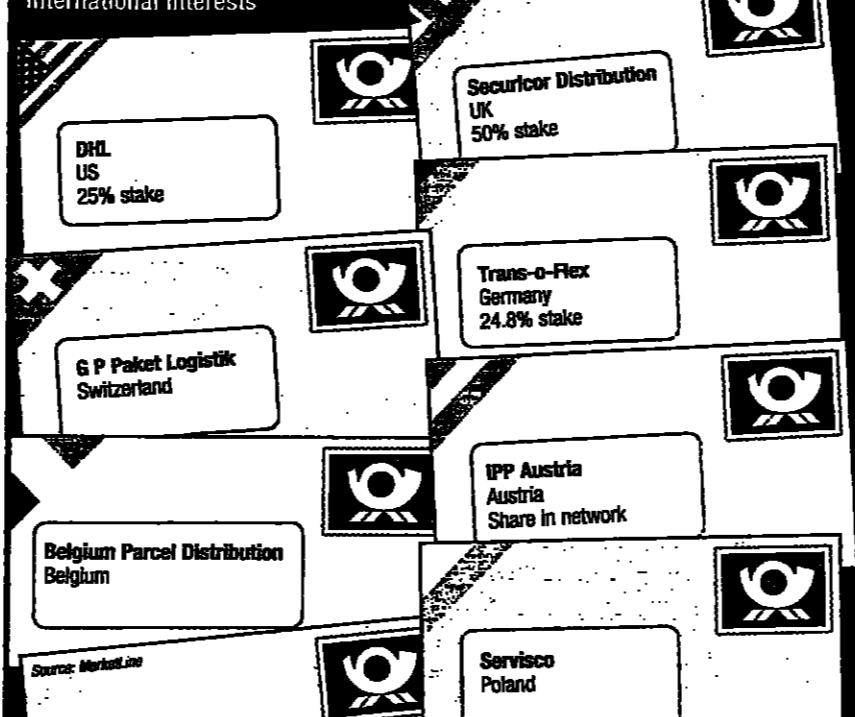
According to Pat Howes, the former security patrolman who heads Securicor's distribution division and will become chief executive of the joint venture, the single European market has changed everything.

"Europe is becoming an expanded domestic market. Customers expect the same quality and speed of service they receive at home."

Günter Tumm, one of Deutsche Post's representatives on the joint venture board, said the market for express and parcel deliveries has expanded rapidly as trade barriers had come down across the continent.

"We expect it will increase from DM4bn [£26bn] two years ago to DM12bn by 2005," he said. "To take part you have to be big, you have to be financially strong and you have to have partners who are big in their home countries."

Deutsche Post international interests



Parcelforce division with 24 per cent, but ahead of TNT with 9 per cent. In value terms, the domestic market is growing at just 5 per cent a year, however, compared to an estimated 15 per cent growth in cross-border deliveries.

Deutsche Post had other motivations too. Klaus Zumwinkel, a former McKinsey management consultant who left the Quelle mail order group to become Deutsche Post's chief executive, said

he had one eye to the state-owned group's planned flotation when signing the alliance with Securicor.

"A lot of European post offices are preparing for the shock of deregulation," said Ian Barridge of Omega Partners, the post and telecommunications consultants. "If they wish to avoid becoming the carrier of last resort, then they have to enhance the performance of the commercial carriers."

The UK was a gap in Deutsche Post's growing European parcels network.

It has parcels alliances in Poland, Austria, Belgium, Switzerland and the Czech Republic, and can deliver to 19 countries across the continent thanks to its stake in trans-o-flex, which is a Europe-wide delivery network.

But while Deutsche Post delivers 600m parcels around the continent each year, a mere 500,000 cross the English Channel.

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N.J. Miller of Kingston Smith & Partners appointed Administrator 2nd November 1998

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The Dines Letter has been very bullish on the Internet group for several years, and their three favorites have been America Online, Amazon.com and CMGI!

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1) It is very difficult detecting the winners in a field that is so new, without the guidelines of established sales and earnings available to Security Analysts in other fields. Yet, The Dines Letter's favorites have been America Online (recommended at 22) and Amazon.com (recommended at 28), which subsequently soared. So let them send you the ones they believe will do best next. Buy their recommended on every decent Internet stock.

2) Mr. Dines writes in his letter: "Don't be afraid to invest in the Asian currency market on television radio, the internet and in print. The Dines Letter – and it is crucial that all investors therefore discover what they predict next. The Dines Letter's old predictions of 'Coming Compelling Currency Depvaluations' have arrived, as predicted, but why are they viewing this as bullish for Wall Street? Might it be that frightened overseas capital is pouring into the US dollar, bonds, utilities and familiar blue-chips such as IBM, Merck, J&J, and Philip Morris, driving them in a stampede distantly above traditional, value-based Security Analysts, and which could only be understood by the principles laid out in Mr Dines' third and final business book Mass Psychology?

3) The Dines Letter is predicting "a blistering year-end rally, spearheaded by Internet and telecom stocks." Their closing Downside Forecast on September 8th was only four business days from the bottom. Their closing Downside Forecast on September 8th has been flashed by them! HERE'S WHAT YOU GET!

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MANAGEMENT & LAW



PEOPLE ON THE MOVE

Rothschild calls on Bell Atlantic for chairman

Raymond Smith, chairman of Bell Atlantic, the US telecoms group, has been appointed chairman of Rothschild North America, the North American holding company of the Rothschild Group.

He plans to leave Bell Atlantic by the end of the year and take up the post at Rothschild from the start of 1999.

Yves-André Istel, vice chairman of Rothschild, described Smith's role as "active non-executive". He added: "He will be involved in the firm's strategy, reviewing major transactions and helping cement links between the firm's offices".

Smith has worked at Bell Atlantic since 1989, and has been chairman and chief executive officer. He played an important role in the merger between Bell Atlantic and Nynex, and the recently announced decision to merge with GTE.

"Rothschild has a very talented and seasoned group of professionals and

an enviable client base, domestic and international," Smith said. "I'm looking forward to this new chapter in my business career."

He is a member of the boards of directors of First Union, US Airways, CBS and Lincoln Center.

One of Rothschild North America's main operations is Rothschild, a broker dealer specialising in mergers and acquisitions, advisory work and restructuring. It recently advised British Telecommunications on its \$30bn joint venture with AT&T, a deal that involved the combination of both companies' international cross-border assets.

Sir Evelyn de Rothschild, chairman of NM Rothschild & Sons, and Baron David de Rothschild, senior partner of Rothschild & Cie Banque, said: "Ray Smith is one of the most experienced and talented businessmen in America."

"Ray Smith will bring to our business and our clients the perspective of a highly accomplished CEO who understands both the US and global markets and who knows how successful companies operate".

William Lewis, New York



Smith moves to Rothschild

Spireser rises at Sara Lee

Judith Spireser, chief financial officer at Sara Lee,

the big US food and consumer goods manufacturer, is to join the company's board and become an executive vice-president.

She will become the organisation's third female director – alongside Joan Manley and Rozanne Ridway – on a 17-strong board. Her

appointment coincides with the retirement of three of Sara Lee's long-established outside directors.

Spireser, a graduate of Northwestern University, has been chief financial officer for about four years, and is also on the supervisory board of Sara Lee/DE, the company's Dutch subsidiary which looks after group interests in coffee and tea and household and bodycare products.

She began her career as a commercial banker, but switched to corporate treasury with Illinois-based Nalco Chemical in 1984.

She joined Sara Lee, which is based in Chicago, as assistant treasurer in 1987 and subsequently went on to head its North American bakery operations. Nikki Tait, Chicago

Riese becomes OptiMark chief

OptiMark Technologies, which is developing a powerful new electronic share dealing system, has appointed Philip Riese from American Express as its new chief executive.

Riese joins OptiMark just

weeks before it launches its new trading system under the wing of California's Pacific Stock Exchange. The company believes its patented order-matching technology could raise daily share dealing volumes in the US from 1.5bn to between 3bn and 5bn and present a major challenge to the New York Stock Exchange.

Mr Riese will take charge of day-to-day operations, while Bill Lupien, OptiMark's co-founder and current chief executive, will continue as chairman and concentrate on building the company's technical director.

OptiMark has recently signed agreements to provide its system to the Nasdaq and Osaka stock exchanges. Terry Rickard, the other co-founder and a former designer of anti-submarine systems, will continue as the company's technical director.

Born in South Africa and educated at Leeds University in the UK, Cape Town and MIT, Riese has been president of the American Express US Consumer Card Group since 1994. He is credited with being largely responsible for the turnaround of American

Express's core business, which had been losing market share to Visa and MasterCard. Previously, he worked for Chase Manhattan Bank.

OptiMark also announced that it was moving its headquarters to New York from Durango in Colorado, where it started operations on Lupien's cattle ranch.

Daniel Bogler, New York

Sella joins EU bank body

Maurizio Sella, chief executive of Banca Sella and chairman of the Italian Banking Association, has been elected president of the European Union.

Sella is the first elected president of the federation, which represents 3,000 banks in the EU, Norway, Iceland and Switzerland.

Until now, the presidency has rotated around member states in alphabetical order, a method similar to that used for the European Union presidency.

Jim Bardon, director general of the Irish Bankers' Federation, was elected chairman of the European



Sella: director at Robert Fleming

and accounting of the company's four healthcare information technology businesses.

● Nucor, the steelmaker, has named David Aycock chairman. Aycock was president and chief operating officer from 1984 to 1991 and has been a director since 1971. Since 1991, Aycock has been involved in a family business.

● Den Danske Bank has appointed Pekka Vataja corporate finance manager and deputy managing director. Vataja comes to his new post from the New York branch of Leonia Bank.

● Wilson Brumer is to become non-executive chairman of Billiton Metals, the Brazilian subsidiary of Billiton, the UK-based mining and metals group. Brumer has been chief executive and vice-president of the board of Companhia Ações Especiais Itabira, the Brazilian steel company.

● Emilio García Gallego, chairman of Uniland Cementera, the Spanish cement company, is leaving to become head of the state's railway infrastructure division.

● General Mills has named James Lawrence chief financial officer. Lawrence was chief financial officer at Northwest Airlines. Before joining Northwest, Lawrence spent four years at Pepsi-Cola International, a division of PepsiCo. General Mills has not had a chief financial officer since 1996. Since then, various managers have fulfilled the duties.

People on the Move is edited by Lisa Wood. Phone 00 44 171 873 3605. Fax 044 171 873 3926.

EU maternity rights clarified

The European Court of Justice last week clarified the scope of European law on maternity rights and the discretion given to national law in such matters.

The case concerned six female employees of the UK's Equal Opportunities Commission (EOC) who had completed one year's service.

Their contracts of employment comprised a Staff handbook and Maternity Scheme. The women claimed several clauses in their contracts were discriminatory on grounds of sex and contravened European rules on maternity rights.

Under the scheme, any female member of staff with at least one year's service and not employed short term is entitled to three months and one week's maternity leave on full pay for the continuous absence before and after childbirth.

However, the employees must state an intention to return to work with the EOC after childbirth and agree to be liable for any repayment during that period, other than statutory maternity pay, should she fail to return.

The Court noted that European legislation on maternity rights requires female workers to receive, during maternity leave, income at least equivalent to the sickness allowance provided for under national legislation in the event of a break of her activities on health grounds.

It is not intended to guarantee any higher income which the employer may have undertaken to pay her under the contract of employment should she be on sick leave.

Thus a clause requiring,

her to repay the difference between the pay received during maternity leave and the statutory payments to which she is entitled is compatible with European law.

The women also disputed the date on which maternity leave was to commence under their contracts. The Court said the date of commencement was a matter for national law.

They also claimed their contracts prevented them taking sick leave during the minimum period of maternity leave under European law or any supplementary period granted by their employer unless they elected to return to work and thus terminate maternity leave.

The Court said female workers a 14-week period of continuous maternity leave. The fact that this period is interrupted by sick leave does not deprive the woman of this minimum right. Any supplementary period is a matter for the employer.

The women also complained that their contracts limited the period during which annual leave accrues to the minimum 14 weeks of maternity leave. The Court said that such a clause did not give rise to direct or indirect discrimination.

Finally, under the EOC's scheme, the accrual of pension rights during maternity leave was limited to the period during which the woman received pay provided for by her contract or statutory maternity pay under national law.

The Court said it could not be made conditional on the woman receiving pay provided for by her contract or statutory maternity pay under national law.

The Court said it could not be made conditional on the woman receiving pay provided for by her contract or statutory maternity pay under national law.

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EQUITIES

Bourses shrug off gloomy data**EUROPEAN OVERVIEW**

By Philip Coggan,

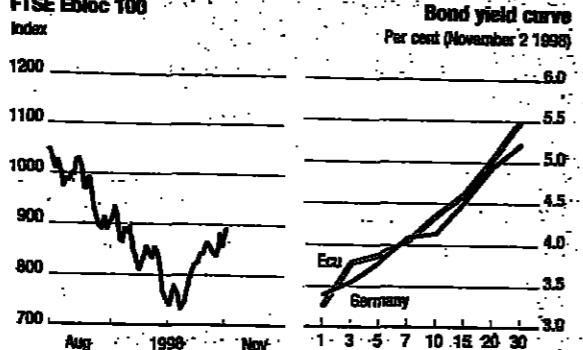
Markets Editor

European markets were lifted by both Tokyo and Wall Street yesterday and by continued interest rate optimism that allowed investors to ignore some fairly gloomy economic news.

The German purchasing managers' index for October fell below 50, indicating that activity in the manufacturing sector was declining and confirming the trend seen in the recent weak Ifo survey of business confidence. Export orders were particularly hit.

FTSE Euboc 100

Index



Source: FTSE International, Interactive DataFT Information

October was alcoholic beverages but the strongest industrial group, by far, was financials, which rebounded after sharp losses in August and September. Banks provided four out of the top five performing individual shares and the retail bank sector gained 13.6 per cent.

The worst performing sectors were UK-dominated property and water industries, which each fell by more than 10 per cent.

The shear scale of the rebound in European markets and weaker-than-expected economic growth. We forecast further downside risk for the dollar and for European stock markets.

have, in our opinion, switched from being overvalued to fairly valued," said Francois Langlade-Bonney, European strategist at Credit Suisse First Boston. "We believe more monetary easing is required to reduce the risk of an outright global recession."

The advance of European markets is likely to be capped in the near term by the increase in the negative impact of global deflationary forces on operating margins and weaker-than-expected economic growth. We forecast further downside risk for the dollar and for European stock markets.

European series

Market	Excl	Day's	Change	Yield	Excl	Total rate
FTSE Eurotop 300	1053.27	+1.93	+0.03	2.32	29.71	1118.95
FTSE Eurotop 100	2404.38	+1.92	+0.03	2.51	36.65	2502.27
FTSE Euboc 100	916.37	+2.39	+0.35	2.38	14.29	911.15

FTSE Eurotop 300 Regions

Region	Excl	Day's	Change	Yield	Excl	Total rate
UK	1150.16	-0.28	+0.40	2.23	20.78	1154.44
France	1030.44	+1.03	+0.07	2.07	40.03	1031.51
Germany	1046.28	+1.45	+0.30	2.33	37.52	1028.51
Europe Ex-UK	1126.10	+2.26	+0.30	2.28	10.29	1146.47

FTSE Eurotop Industry Sectors

Sector	Excl	Day's	Change	Yield	Excl	Total rate
Alcoholics	905.24	+1.40	+0.12	3.31	27.87	907.49
Automobiles	755.42	-0.07	-0.12	4.27	14.54	751.27
Chemicals	1020.02	+1.42	+1.15	2.37	20.16	1034.25
Consumer Goods	990.54	+2.29	+2.02	2.02	20.14	1010.21
Electronics	881.72	-2.24	+0.08	2.01	11.08	842.55
Food & Beverage	878.52	-1.69	+0.45	2.55	6.65	894.03
General Indust.	945.83	+0.81	+0.64	2.65	17.45	898.95
Industrial Indust.	937.38	+1.17	+0.40	2.65	17.48	912.76
Mining	837.68	-2.20	+0.07	3.01	11.88	847.87
Paper, Plas & Printing	767.25	+3.11	+2.11	2.27	1.21	768.23
Services	1127.97	+1.54	+0.17	1.85	49.50	1192.30
Telecommunications	1126.89	-0.32	+0.78	2.30	1025	1204.38
Utilities	905.61	-0.42	-0.34	2.65	11.37	818.71
Alcoholics	729.03	-1.76	+1.27	3.35	12.27	736.16
Automobiles	801.92	-0.34	-0.24	2.30	10.89	801.65
Chemicals	929.31	-2.09	+0.19	2.35	17.45	944.65
Consumer Goods	1014.17	-3.08	+2.02	1.95	13.02	1026.50
Electronics	826.22	-2.37	+1.45	1.58	9.87	836.04
Food & Beverage	897.52	-1.09	+0.01	1.91	5.78	904.54
General Indust.	905.04	-0.37	-0.33	1.98	7.98	922.28
Industrial Indust.	945.14	+5.14	+1.17	1.17	13.51	950.87
Mining	892.72	+1.51	+0.47	2.28	5.27	916.11
Paper, Plas & Printing	712.50	-0.63	-0.08	2.64	14.20	724.48
Services	1065.59	+0.07	+0.22	2.12	21.85	1128.17
Telecommunications	1065.59	-0.42	+0.12	2.65	11.37	1157.28
Utilities	803.61	-0.42	-0.34	2.65	11.37	818.71
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General Indust.	905.04	-0.37	-0.33	1.98</td		

INTERNATIONAL CAPITAL MARKETS

Strength in equities knocks prices

GOVERNMENT BONDS

By Jeremy Grant in London and John Labate in New York

Strength in pan-European equities, signs of a hesitant recovery in the emerging market asset class and the pressure of fresh supply in the US Treasury market knocked global bond prices down yesterday.

The 30-year US Treasury long bond future quoted in Chicago fell by more than one full point. By midday in New York, the 30-year long bond, the benchmark for long-term interest rates, had lost 1½ to 104½, sending the yield higher to 5.231 per cent.

Shorter-term issues also fell back. The 10-year note was off 1¼ to 106¾, yielding 4.737 per cent, and the two-year note lost ½ to 99½, yielding 4.281 per cent.

Analysts said equities were building on the confidence in the global economy

inspired by the G7's commitments to maintaining economic stability. That has partially sapped the safe haven appeal of core bonds.

"The world looks like a safer place to invest and Treasuries are bearing the brunt of that," said Tom O'Connell, senior government trader at First Chicago Capital Markets.

In the UK, a fall in gilt yields was broken by a Chartered Institute of Purchasing and Supply survey, showing manufacturing shrinking at its fastest rate for more than six years.

German bonds ended after slipping to lower levels with sympathy with Treasuries.

In Ireland, the central bank left key interest rates unchanged.

Emerging market bonds turned in their best average performance for two weeks amid talk that some sovereigns – principally Argentina, Mexico and Turkey – may take advantage of nar-

of safe-haven flows, and on the other you've got weak data now arriving that gives a very good underpinning to the markets in terms of the scope for interest rate cuts that it implies," said Andy Bevan, chief economist at Goldman Sachs.

US Treasuries gave way to a wave of selling as equities rebounded amid evidence of slowing economic activity in a survey by national purchasing managers.

The monthly report by the National Association of Purchasing Management was weaker than analysts had expected. The main NAPM index on economic activity for October fell from 49.4 in September to 48.3. The prices paid index of the survey rose slightly to 35.8 per cent but remained at what analysts called a low level.

The survey had little impact on Treasury trading. "People are moving out of Treasuries and into spread products," said Mr O'Con-

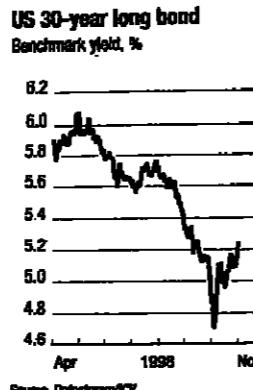
nell, noting that new corporate bond deals had drained demand from Treasuries.

The rally in US equities was another significant factor driving government bond weakness, with the Dow Jones Industrial Average more than 100 points higher yesterday.

UK gilts ended lower, with investors focusing on today's pre-Budget statement from Gordon Brown, the chancellor of the exchequer, and the Bank of England's monetary policy committee vote on Thursday.

The benchmark 10-year December gilt future hit a low of 118.73, down 0.64, before bouncing to close at 114.04 in thin trading of 21,000 contracts.

German bonds were softer in a narrow range with traders expecting little movement in the absence of domestic signals for the market. The December 10-year bond future was down 0.19 in late trading to 112.10.



Liffe to focus on forging new alliances and changing rules

Electronic trading has galvanised the exchange, says Edward Luce

Three months after he was appointed Liffe's first full-time chairman, Brian Williamson yesterday staked out his strategy for restoring the exchange's competitiveness.

Although most attention yesterday was focused on the job cuts – reducing the payroll of the London International Financial Futures and Options Exchange from more than 1,000 to about 400 within 15 months – the real strategy lay elsewhere.

Liffe plans to focus on two core areas over the next few months: cutting regulation and forging new alliances.

On regulation, most of the changes will be spurred by Liffe's move to electronic trading, when it launches Liffe Connect (initially for equity options) later this month. This will enable brokers to trade Liffe's products from screens around the world and will give Liffe an opportunity to lighten the regulatory burden.

"We inherited the Chicago regulatory system which was designed for pit-based trading and also retail users," said Mr Williamson. "This is clearly inappropriate for Liffe when it goes electronic."

More importantly, Liffe is seeking to negotiate alliances with other exchanges and with "quasi-exchanges" such as over-the-counter trading networks.

Behind this strategy is the growing realisation that the exchange as a concept is becoming old-fashioned. The OTC, or over-the-counter, non-exchange derivatives market, has grown more than five-fold since 1980 and notional volumes now comfortably exceed those on listed derivatives products.

for several other exchanges,

two-thirds of which are

sourced in London – are set

to grow even more dramatically over the next few years, according to the British Bankers Association. This means that Liffe and other exchanges, including Eurex,

may be sidelined.

Liffe aims to redefine the

concept of the exchange by becoming more actively involved in the OTC market.

"We want to become a financial services provider, not

simply an

old-fashioned

exchange"

The value is clearly moving

from the exchange to the

clearer," said one official.

"Liffe is at a disadvantage to Eurex because it does not

own its clearing house."

Liffe could also add value

by going into partnership

with another leading

exchange, such as the Chi-

ago Mercantile Exchange.

This would be seen as

appropriate because both

exchanges dominate the

short end of the interest rate

curve – the three-month

euro-mark future for Liffe

and the three-month dollar

future for the CME.

However, such a tie-up

would be complex given the

fact that the CME remains a

predominantly pit-based

trading exchange run by

(and for) its members.

"Derivatives are getting

more complex all the time,"

said one banker. "It is still

not clear whether Liffe will

be a victim of this or a

beneficiary."

Akzo Nobel raises DM1bn

INTERNATIONAL BONDS

By Khozen Merchant

Akzo Nobel, Europe's fifth biggest chemicals group, yesterday became the second Dutch company within two weeks to issue a jumbo bond, continuing the slow reopening of the European corporate bond market after issuance virtually ceased following the Russian debt default in August.

The 10-year DM1bn issue was its first in the German currency and follows telecommunications group KPN's DM2bn issue. It was priced to yield 120 basis points over the German 10-

year bond and in secondary trading it tightened about two basis points.

The proceeds from the issue, which attracted institutional investors across Europe, will be used to finance the £1.8bn acquisition of Courtaulds, the UK textile group, in May.

Bankers said the market's revival was powered by the recovery in European equities and two interest rate cuts by the US Federal Reserve.

Moody's, the US credit rating agency, judged the Akzo Nobel issue a single A credit rate.

"This is a positive step for the single A rated market for corporate bonds,

issuer yesterday, with a \$1.25bn bond maturing over five years.

The issue was priced to yield 134 basis points above US Treasuries and was co-arranged by Salomon Brothers, Merrill Lynch and Paribas.

European investors bought 30 per cent of the issue and the rest went to the US.

General Electric Capital Corporation, the capital markets arm of General

Electric and a regular visitor to the bond market, launched a \$400m issue maturing over seven years. The lead manager was Paribas. The bond was priced to yield 88 basis points over US Treasuries.

GECC also issued a \$50m add-on issue to an earlier \$150m five-year bond. It was lead-managed by Royal Bank of Canada Dominion Securities Global Markets.

New international bond issues										
Borrower	Amount m.	Coupon %	Price	Maturity	Fee %	Spread bp	Book-runner			
■ US DOLLARS										
GMAC	1.25bn	7.0%	101.25	Nov 2003	0.55%	+134 (Aug 98)	Merrill Lynch/Salomon Brothers			
GECC	400	5.125	99.711R	Nov 2005	0.30%	+88 (Wk 5y)	Paribas			
Deutsche Bank	100	4.125%	97.073R	Nov 2005	0.25%	+80 (May 98)	Deutsche Bank			
■ D-MARKS										
Akzo Nobel	1bn	5.375	99.56R	Nov 2008	0.45%	+120 (Jun 98)	ABN Amro/Warburg DR			
■ STERLING										
KW Int Finance(a)	150	6.00	101.034	Oct 2003	0.25	+758 (Jun 98)	Warburg Dillon Read			
GECFC	50	6.25	102.95	Apr 2003	0.25	+758 (Jun 98)	RBC Global Markets			

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. Fwd price with 250 days. Plus 12 days accrued. b) Fwd price with 150 days. Plus 20 days accrued. c) Priced later. d) Long 1st coupon.

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Focus on forging new
and changing rules

Edward

Yen defies fundamentals to strengthen

MARKETS REPORT

By Alan Beattie

The yen strengthened on the foreign exchange markets yesterday as capital flows and hedge fund fears conspired to defy fundamentals and push it higher.

At one point in Asian trading the yen hit an eight-month high against the D-Mark and reached its highest level for two weeks against the dollar.

It later softened slightly after dealers squared positions ahead of a Japanese public holiday. But the yen still finished higher at the end of London trading than at last week's close. It finished at Y114.9 against the dollar, up from Y116.5 on Friday.

■ The yen's strength ironically came partly from the G7 statement which was expected to weaken it. The statement initially

propelled the dollar by reducing fears of a Brazilian devaluation. But other parts of the package were less dollar supportive. In particular, fears arose that tighter regulation of hedge funds would expose more institutions with short term positions still in place. Forced buying of yen to cover these positions might drive the yen higher.

"There is some second-guessing of the meaning behind the G7 statement," said Steve Hannah, chief economist of IBJ International in London. "This has combined with suspicions that some hedge fund positions are still in place."

But Mr Hannah thought that some directly positive factors were also buoying the yen. A proposed joint

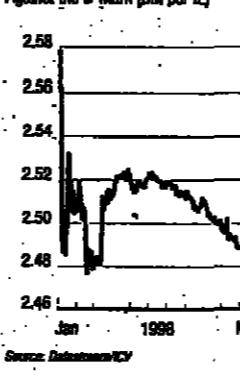
venture of Fuji and DKB banks helped the Japanese stock market to rise and made investors more confident about the future of Japanese banking, he said.

And Philippa Malmgren of Bankers Trust in London said that various capital flows were driving up the yen. "Fund managers who were underweight in yen stocks are now moving in, encouraged by the rise in the Nikkei," she said. "And Japanese corporates who are selling the family silver overseas and repatriating the money are also causing the yen to rise," she added.

Ms Malmgren thought that the Japanese authorities might intervene to weaken the yen if it rose above Y110 to the dollar. "But with the Fed on a monetary easing path they will have to do it on their own," she said.

■ Sterling took a pounding yesterday as a weak purchasing managers' survey

Irish punt Against the D-Mark (DM per E)



added to the air of doom surrounding the UK domestic economy. The pound fell against the D-Mark and the dollar yesterday to close at DM1.783 or £1.688 in London.

The Bank of England's monetary policy committee (MPC) meets later this week amid growing calls for interest rates to be cut by 50 basis points rather than the

expected 25. Their task was made harder yesterday by an extraordinary announcement by the Office for National Statistics (ONS). The ONS suspended production of the much-criticised new average earnings figures pending an external investigation.

The ONS's announcement makes it more likely that the MPC will err on the side of caution," said Nick Stamenkovich, an analyst at Bank Austria Kreditanstalt Future in London.

"But a cut of 50 basis points can easily be justified. The risks to the UK economy have shifted from inflation to growth."

■ OTHER CURRENCIES

■ Ireland's central bank yesterday put off the inevitable and left interest rates unchanged. The punt strengthened against sterling during the day, after some speculation that Irish interest rates would be cut to 151.1063 in London, up from 151.1145 at Friday's close.

Irish short-term interest rates presently stand over one and a half per cent higher than interest rates in the main block of euro participating countries.

■ The daily Moldovan currency auction was suspiciously annulled yesterday. An official from the interbank currency exchange said that the auction was declared invalid after the Moldovan leu nearly halved in value against the dollar.

The authorities gave no explanation other than to say that dealers had violated auction regulations.

WORLD INTEREST RATES

MONEY RATES

	Over night	One month	Three months	Six months	One year	Last 6 mth	One year	Rate
Belgium	3.2	3.5%	3.4%	3.5%	3.5%	3.5%	3.5%	3.5%
Germany	3.5	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
Ireland	3.5	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
Italy	4.5	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
Netherlands	3.5	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
Switzerland	1.1	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%
US	1.5	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Japan	1.5	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%

■ US LIBOR SBA London

Interest Bid - 5.1% 5.1% 4.6% - - -

US Dollar Libor - 4.88 4.88 4.67 4.45 - - -

ECS Listed De - 5.1% 5.1% 5.0% 5.0% - - -

ECS Unlisted De - 5% 5% 5% 5% - - -

London sterling bank rate LIBOR is the 3m London rate based on 11am 30th Oct 1998

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COMMODITIES & AGRICULTURE

Jamaica retakes control of sugar mills

By Robert Corzine

The Jamaican government has retaken control of the island's three largest sugar mills, which it privatised four years ago, saying they have not met productivity and production targets and have depended too heavily on state support.

A 51 per cent stake in the mills, which produce 70 per cent of the island's sugar, was sold to the Sugar Company, a consortium of two local companies and Booker Tate of the UK.

The mills have been repossessed by the government for the nominal sum of \$31, said Roger Clarke, agriculture minister. They were sold to the consortium for US\$28.5m in cash and promissory notes, but since the privatisation the government has pumped US\$77m into the Sugar Company to keep it going.

It will need another \$100m over the next three years to stay afloat, Mr Clarke said.

The Sugar Company's operations have been adversely affected by its inability to reduce production costs, which are higher than those of Jamaica's competitors, the minister said.

The island's sugar industry was troubled by a prolonged drought last year that led to a decline in this year's harvest to 185,000 tonnes of raw sugar, from 237,000 tonnes last year.

"The government discussed with the private shareholders of the Sugar Company the extent to which they were willing or able to provide private funds to keep the company going," Mr Clarke said. "They advised that they would not be providing any additional financing to the company."

"The government was forced to take back control of the company as it is committed to the survival of the sugar industry."

Oil rises on UN confrontation with Iraq

By Robert Corzine

Crude oil prices were given a boost yesterday by the latest confrontation between Iraq and the United Nations.

The price of Brent Blend for December delivery was up 16 cents a barrel at \$13.38 in late trading on London's International Petroleum Exchange.

Traders and analysts had mixed opinions as to how big an impact Iraq's actions might have on prices. Peter Gignoux, head of the energy

desk at the London office of Salomon Smith Barney, said there appeared to be little short-term threat of a significant disruption to Iraqi crude exports under the UN oil-for-food programme.

Gary Ross of New York-based Pura, an oil industry consultancy, said that the markets "will build in some risk premium over time" if the confrontation continues, although he agreed that "everyone wants to see the oil-for-food programme continue".

The steady build-up of Iraqi exports this year has been one of the factors behind the oil price slump. Iraq's output has risen from about 1.6m barrels a day in February to more than 2.4m b/d in September. Exports have been running in the 1.8m to 1.9m b/d range, although reports suggest a relatively sharp fall-off may have occurred last week.

Officials from the Organisation of Petroleum Exporting Countries say Iraq can probably increase its sus-

tainable output to 2.5m b/d with funds that the UN has promised to allocate for urgent oil infrastructure repairs but it will need significant new investment – and six to 12 months – to move up to 3m b/d.

Although Iraq remains a wild card in the oil price equation, markets are still transfixed on stock levels and the pace at which surplus inventories are likely to fall this winter.

Analysts say a cold north-

winter alone will not eliminate the global oversupply of crude and refined product stocks, although it would accelerate their fall and lift market sentiment.

So too would further progress by Opec in meeting its target to cut output by a collective 2.6m b/d. Although Opec says compliance was more than 90 per cent in September, the markets are unlikely to believe it has scope for any further cuts until all members that have promised cuts have delivered.

"If you want higher

prices then people will really have to be in line," said Joe Stanislaw of Cambridge Energy Research Associates.

Iraq is said to have come under pressure last week from fellow oil producers at a consumer-producer conference in Cape Town to adhere fully to its promised cuts.

Opec is due to meet on November 25, although many analysts say a new round of cuts may not be possible until after the Venezuelan presidential elections in December.

Strike in Canada helps lift nickel

MARKETS REPORT

By Kenneth Gooding

and Paul Clark

Nickel rose by more than 3% per cent yesterday, helped by news that some mines in New Caledonia owned by Eramet, the French producer, were affected by a strike. Ironically, the strike was called by employees wanting government help for the nickel industry, which has been badly affected by low prices.

Eramet recently indicated it would extend cuts to its output into 1999 because of low prices. It said it would produce 57,000 tonnes in 1998 and about the same amount next year, well below capacity of 63,000 tonnes.

Nickel for delivery in three months on the London Metal Exchange closed up \$15 a tonne at \$4,080. Before the Eramet announcement, nickel and other LME metals prices were moving higher because of technical short-covering.

Aluminium was up \$9 to \$1,325 a tonne. Billiton Metals is forecasting the three-month aluminium price will rise from an average of \$1,322 this year to \$1,367 a tonne in 1999.

Coffee futures jumped yesterday on news that further storm damage in central America would affect supplies. Anacafe, the Guatemalan coffee growers' association, said at least 30 to 55 per cent of the coffee crop had been lost in strong storms.

November coffee on the London International Financial Futures and Options Exchange closed at \$1,570 a tonne compared with \$1,780 on Friday.

• Liffe is altering the trading hours of its cocoa futures and options contracts, writes Paul Solman. The new hours are 9.30am to 11.55am and 1.30pm to 4.55pm.

Horns locked over beef reform compensation plans

European countries are deeply divided on how to reward farmers for accepting the end of intervention, writes Michael Smith

Europe's beef farmers were in trouble long before 1996, when UK scientists found a potential link between the BSE mad cow disease and nvCJD, a similarly fatal illness affecting people. Consumption fell from 25kg a year per person in the early 1970s to about 20kg in 1996, as more people turned to pork and chicken.

There are limited opportunities for self-unwanted beef outside the European Union because demand in developing countries is growing only slowly.

Against this background, the European Commission has targeted beef for the biggest reform of any of the markets it aims to change from 2000. It wants to cut by 30 per cent the level at which market support is triggered and to abolish intervention, a system that guarantees prices to farmers in depressed markets.

After July 2002, the EU may offer financial aid for private storage of unwanted beef but would no longer take it off farmers' hands at "intervention" prices.

States have been much less vociferous in their

opposition to the 30 per cent price cut than they have to smaller decreases proposed for cereals (20 per cent) and milk (15 per cent).

However, there are strong reservations about ending intervention, with Austria, Spain and Finland among those arguing it should be retained for market crises.

The main argument, however, is over compensation. The commission is offering four-fifths of the 30 per cent cuts to countries which want more.

Its proposals for paying compensation have provoked further controversy. These build on a system set up in 1992 under the first big CAP reform through which farmers are given direct "premia" payments related to the number of male bovine and female suckler cattle.

That system favours countries with large "extensive" herds, mainly the UK, France, Ireland and, to a lesser extent, Portugal. Other countries won concessions in other parts of the 1992 reforms but their governments' minds are now more

focused on beef. Germany complains that the 1992 system means it produces 19 per cent of EU beef production but receives only 11 per cent of the premia. The Netherlands and Italy have similar problems.

The commission aims to redress the balance, mainly by introducing "national envelopes" under which half the increase in direct payments will be given to member states to distribute according to national criteria aiding farmers' needs.

The system introduces flexibility to apply aid where it is most needed. It also addresses the complaints of intensive farmers by allocating countries their envelopes

on the basis of their farmers' share of total beef production rather than on the basis of the existing premia that favour extensive farmers.

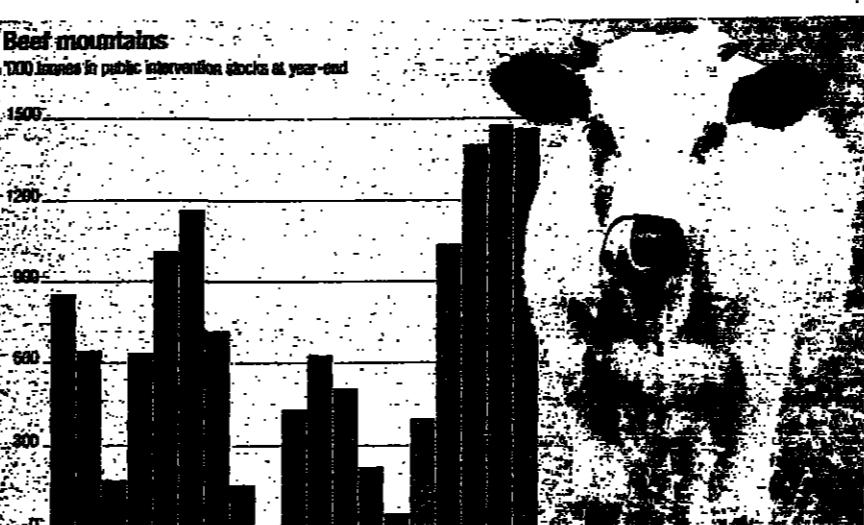
Not surprisingly, Germany and the Netherlands want the envelopes to be bigger, while the "extensive" countries of France, the UK, Ireland and Portugal say their beef farmers will receive less compensation than others for price cuts.

Along with Belgium, Spain and Finland, they are worried that it implies a "renationalisation" of the CAP and could sow the seeds of its eventual abolition.

The likelihood is that countries will accept a solution along the lines the commission is proposing. The alternatives – continuing with unpopular premiums for the early culling of young cattle or allowing market imbalances to worsen – are less palatable for most governments.

However, small changes in the commission's proposals – for example, varying direct payment sizes or changing the proportion of money distributed through national envelopes – could have a big impact on individual farmers' incomes. There is much to fight for.

The next article in this series will appear on November 17. The first two appeared on October 19 and 27.



on the basis of their farmers' share of total beef production rather than on the basis of the existing premia that favour extensive farmers.

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COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

Prices from Amalgamated Metal Trading

in ALUMINIUM, SILVER, GOLD & tonnes

COPPER, LEAD, ZINC, TIN, BRONZE & tonnes

NICKEL & tonnes, COPPER ALLOY & tonnes

TITANIUM DIOXIDE & tonnes

MAGNESIUM & tonnes

ZINC, CHROMIUM & tonnes

TITANIUM DIOXIDE & tonnes

COPPER ALLOY & tonnes

FT MANAGED FUNDS SERVICE

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Offshore Insurances and Other Funds

LONDON SHARE SERVICE

LONDON SHARE SERVICE

OTHER INVESTMENT TRUSTS	MEDIA - Continued	PROPERTY - Continued	SUPPORT SERVICES - Continued	TRANSPORT - Continued	AIM - Continued
The following investment trusts are not eligible for inclusion in the FTSE Actuaries Share Index.					
Approved by the Intermediary Notes					
American Eng Inds 4	52 week high				
Atlantic					
Atlantic Japan Corp Pl.					
Balmer					
Barings Equity Fund					
Barings Fund					
Barings Fund 17					
Barings Fund 20					
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LONDON STOCK EXCHANGE

Shares race ahead on rate reduction optimism

MARKET REPORT

By Steve Thompson,
UK Stock Market Editor

The start of what could be a momentous week for London's stock market saw share prices gallop ahead on the back of ever-growing confidence that another domestic rate cut is imminent.

Helping the London market build on its recent buoyant mood was another powerful showing by Wall Street which, following last Friday's near 100-point gain on the Dow Jones Industrial

Average, posted another three-figure rise shortly after the opening bell yesterday.

On top of the prospect of another local interest rate reduction, institutional buyers were enticed back into the market by takeover and corporate stories.

Global market bulls pointed to the possibility that central banks in both France and Germany, meeting on Thursday morning, could signal rate cuts in those countries, moves which are expected to be followed up by the Bank of England at midday the same day.

The FTSE 100 index settled 8.1 higher at 5,525.5, extending its rise over the past three trading sessions to 23.6, or 4.4 per cent.

At its best, seconds before Wall Street opened for business, the FTSE 100 posted a 126-point gain at 5,564.4.

Equally impressive were the market's second liners and smallcap stocks, which made rapid progress all day. The indices representing both areas of the market finished at or around their session-highs.

The FTSE 250 closed the day 76.4 firmer at 4,887.8, only a fraction off its ses-

sion-best of 4,889.0. That gain was the 13th winning performance of the past 14 trading days.

And the FTSE SmallCap delivered another power-packed performance, racing up 22.7 or 1.1 per cent to 2,035.0, to record a record-breaking 15th straight upside performance.

The positive interest rate story was only slightly offset by worries that this week's Confederation of British Industry conference in Birmingham would bring a series of confidence-sapping speeches about British industry. The latest CBI sur-

vey, published yesterday, provided a gloomy background to the conference, as did the UK purchasing managers' survey, which revealed the worst conditions since the data were first compiled in 1992.

Gordon Brown, Chancellor of the Exchequer, is due to reveal his pre-budget statement today, which commentators expect to include a Treasury downgrade of its domestic economic growth forecast for the current year, down from 1.6 per cent to 1 per cent.

The takeover/corporate activity stories involved

many of the UK market's front line stocks. Williams Holdings held top spot in the FTSE 100 for much of the day after a report that Tyco International, a leading US Group, had held talks with the company.

That news was confirmed by Williams although it said discussions had been terminated.

There was also growing talk that a takeover move in the financial sector was being prepared.

Turnover in equities was again disappointing, reaching only 832m shares by 6pm.

GRE is target again

COMPANIES REPORT

By Peter John, Joe Kizrao
and Martin Brice

Guardian Royal Exchange, one of the market's most frequently revisited takeover targets, has returned to the speculators' sun sights.

GRE was up 15% to 305p yesterday and the 5 per cent gain built on a recent rise that has dragged the stock from a two-year low on above average turnover.

Dealers were noting the rumours last week but the prospect of the insurer's vulnerability was brought to the fore yesterday by the latest piece of research from Merrill Lynch.

Merrill published its annual review of car insurance premiums, the area of business that affects Guardian more than the other UK insurers.

The broker concluded that while motor premiums have risen by about 6 per cent, the growth is not enough to offset the harsh competitive environment in which general insurers operate.

Merrill is nervous about the fundamentals but has the stock on a short term "accumulate" rating on "speculative grounds".

Other analysts agree Guardian is wide open to

attack. Charles Landa at SG Securities said: "Guardian is caught in the middle ground. I think they're desperate to do a deal. They really should sell themselves to a US or German insurer."

BP sparked 18 higher at 585p to record a gain of almost 10 per cent since the beginning of last week.

The latest rise in the shares coincided with the release, ahead of schedule, of the company's prospects for its merger with Amoco. Analysts were reassured by BP's comments that the dovetailing exercise was on track for the end of the year.

The merger is predicted to

create a big demand for stock from UK funds trying to maintain an appropriate holding as the weighting jumps from 4 per cent of the FTSE AllShare to more than 6 per cent.

HSBC Securities is offering UK funds with restrictive investment codes of practice as a way into the Amoco side of the deal, which was at 5 per cent discount to BP yesterday. The broker has created Amoco warrants priced in sterling.

Oils were broadly perky with buyers reacting to a further underlying oil price. Among the exploration and production stocks Lasmo

rose 16% to 186p and Enterprise 12 to 420p.

Williams saw brisk trade of 4m as it confirmed weekend press reports that it had been in talks with Tyco International of the US, but said those discussions had ended. The shares gained 12% to 385p.

A squeeze, together with vague takeover talk, sent shares in sugar products group Tate & Lyle soaring 70 or 20 per cent to 420p, the best performer on the FTSE 100.

One dealer said: "I've been trying to get hold of this stock today but I just couldn't get the shares."

Early talk of a bidder for the UK group was also heard, with Monsanto, the agriproducts, food ingredients and drugs group, suggested in some quarters as a possible suitor.

However, with turnover at a lowly 373,000 shares by the close, analysts dismissed the talk. Several attributed yesterday's advance to bargain-hunting for a stock that has fallen from a year's peak of 580p. Lehman Brothers is among those that favour the stock and yesterday told cli-

ents: "Things are starting to go right and yet the shares remain very cheap."

Having issued two profits warnings this year, forcing analysts to slash profits estimates, specialists will be paying special attention to full-year figures published at the end of this month.

In the rest of the sector, better-than-expected final figures from Associated British Foods saw the shares appreciate 29 to 585p. Carl Short at SG Securities is a buyer of the shares and said: "With recession looming, Associated British Foods is a stock whose time has come thanks to its renowned defensive qualities."

Norwich dips

Norwich Union dipped 7% to 418p on nervousness that the insurer might be looking for up to £1bn to fuel its expansionist dreams.

Norwich has emerged as one of the most likely bidders for National Provident Institution, the mutual life assurer.

Quarterly figures for the period ending with Christmas are expected to more than double to 1.5m new customers. Shares in Orange jumped 32% to 685p as James Ross at ABN Amro raised his near-term share price target from 550p to 650p.

The broker is also a buyer of Vodafone, 39 ahead at 585p, and Securicor, which rose 23 to 465p. Securicor yesterday announced the sale of half share in its distribution division to Deutsche Post in a £223.4m deal.

FTSE 30 INDEX										
	Nov 2	Oct 30	Oct 29	Oct 28	Oct 27	Year ago	High	Low	PE	Total
FT 30	3394.2	3320.6	3271.5	3228.1	3248.1	3171.9	4004.8	2706.6	14.4	10,000
Div. yield	3.12	3.17	3.23	3.26	3.25	3.25	4.22	2.72	-	-
PS ratio	21.51	21.45	20.77	20.46	20.37	20.85	25.41	15.80	-	-
EPS ratio	1.15	1.15	1.15	1.15	1.15	1.15	1.15	1.15	1.15	1.15
FT 100 component total	4043.1	3929.5	3878.5	3828.0	3828.0	3794.7	4043.1	3705.5	14.3	10,000
FT 250 component total	15,265	14,935	14,685	14,435	14,435	14,185	15,265	13,915	14.3	10,000
FT 300 component total	20,830	20,500	20,270	20,040	20,040	19,790	20,830	19,450	14.3	10,000
FT 500 component total	25,000	24,670	24,340	24,010	24,010	23,760	25,000	23,650	14.3	10,000
FT 1000 component total	30,000	29,670	29,340	29,010	29,010	28,730	30,000	28,850	14.3	10,000
FT 2500 component total	35,000	34,670	34,340	34,010	34,010	33,710	35,000	34,850	14.3	10,000
FT 3000 component total	40,000	39,670	39,340	39,010	39,010	38,680	40,000	39,850	14.3	10,000
FT 5000 component total	45,000	44,670	44,340	44,010	44,010	43,710	45,000	44,850	14.3	10,000
FT 10000 component total	50,000	49,670	49,340	49,010	49,010	48,280	50,000	49,850	14.3	10,000
FT 25000 component total	60,000	59,670	59,340	59,010	59,010	58,280	60,000	59,850	14.3	10,000
FT 30000 component total	70,000	69,670	69,340	69,010	69,010	68,280	70,000	69,850	14.3	10,000
FT 50000 component total	80,000	79,670	79,340	79,010	79,010	77,280	80,000	79,850	14.3	10,000
FT 100000 component total	100,000	99,670	99,340	99,010	99,010	97,280	100,000	99,850	14.3	10,000
FT 200000 component total	120,000	119,670	119,340	119,010	119,010	117,280	120,000	119,850	14.3	10,000
FT 300000 component total	150,000	149,670	149,340	149,010	149,010	146,280	150,000	149,850	14.3	10,000
FT 500000 component total	200,000	199,670	199,340	199,010	199,010	196,280	200,000	199,850	14.3	10,000
FT 1000000 component total	250,000	249,670	249,340	249,010	249,010	246,280	250,000	249,850	14.3	10,000
FT 2000000 component total	300,000	299,670	299,340	299,010	299,010	296,280	300,000	299,850	14.3	10,000
FT 3000000 component total	350,000	349,670	349,340	349,010	349,010	346,280	350,000	349,850	14.3	10,000
FT 5000000 component total	400,000	399,670	399,340	399,010	399,010	396,280	400,000	399,850	14.3	10,000
FT 10000000 component total	500,000	499,670	499,340	499,010	499,010	496,280	500,000	499,850	14.3	10,000
FT 20000000 component total	600,000	599,670	599,340	599,010	599,010	596,280	600,000	599,850	14.3	10,000
FT 30000000 component total	700,000	699,670	699,340	699,010	699,010	696,280	700,000	699,850	14.3	10,000
FT 50000000 component total	800,000	799,670	799,340	799,010	799,010	796,280	800,000	799,850	14.3	10,000
FT 100000000 component total	1000,000	999,670	999,340	999,010	999,010	996,280	1000,000	999,850	14.3	10,000
FT 200000000 component total	1200,000	1199,670	1199,340	1199,010	1199,01					

WORLD STOCK MARKETS

EUROPE															
AUSTRIA (Nov 2 / Sch)															
AVIAT	409	+38.05	455.55	265	12	157	Cougar	2025	+1.75	45.60	31.70	25	1	Scorpio	76.20
BMT	344	+24	10.75	501	12	157	Coastal	2025	+1.75	45.60	31.70	25	1	Sidewinder	76.20
BRISTOL	7,277	+217	2,709	1,800	12	215	Crane	2025	+1.75	45.60	31.70	25	1	Spartan	76.20
BUAG	640	+25	1,826	450	12	215	Crossair	2025	+1.75	45.60	31.70	25	1	Tobago	76.20
BUAG	55,950	+10,028	478.00	48	12	215	Dove	2025	+1.75	45.60	31.70	25	1	Tropic	76.20
BUAG	712	+8	805	565	12	215	Eurostar	2025	+1.75	45.60	31.70	25	1	Viper	76.20
CAE	2,916	+165	4,574	1,961	12	215	Falcon	2025	+1.75	45.60	31.70	25	1	Wingman	76.20
CAE	1,082,555	+255	2,701	1,820	12	215	Flame	2025	+1.75	45.60	31.70	25	1	Zodiac	76.20
CAE	711,855	+14.95	365.15	12	215	Globe	2025	+1.75	45.60	31.70	25	1	Zodiac	76.20	
CAE	629	+18	655	525	12	215	Hawk	2025	+1.75	45.60	31.70	25	1	Zodiac	76.20
CAE	540	+5	870	520	12	215	Hawk	2025	+1.75	45.60	31.70	25	1	Zodiac	76.20
CAE	540	+5	870	520	12	215	Hawk	2025	+1.75	45.60	31.70	25	1	Zodiac	76.20
CAE	741	+71	275	185	12	215	Hawk	2025	+1.75	45.60	31.70	25	1	Zodiac	76.20
CAE	1,194	+41	1,933	311	12	215	Hawk	2025	+1.75	45.60	31.70	25	1	Zodiac	76.20
CAE	567	+5	870	520	12	215	Hawk	2025	+1.75	45.60	31.70	25	1	Zodiac	76.20
CAE	567	+5	870	520	12	215	Hawk	2025	+1.75	45.60	31.70	25	1	Zodiac	76.20
CAE	741	+71	275	185	12	215	Hawk	2025	+1.75	45.60	31.70	25	1	Zodiac	76.20
CAE	1,194	+41	1,933	311	12	215	Hawk	2025	+1.75	45.60	31.70	25	1	Zodiac	76.20
CAE	567	+5	870	520	12	215	Hawk	2025	+1.75	45.60	31.70	25	1	Zodiac	76.20
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CAE	1,194	+41	1,933	311	12	215	Hawk	2025	+1.75	45.60	31.70	25	1	Zodiac	76.20
CAE	567	+5	870	520	12	215	Hawk	2025	+1.75	45.60	31.70	25	1	Zodiac	76.20
CAE	567	+5	870	520	12	215	Hawk	2025	+1.75	45.60	31.70	25	1	Zodiac	7

FT/S&P ACTUARIES WORLD INDICES

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Dollar terms

NATIONAL AND REGIONAL MARKETS				FRIDAY OCTOBER 30 1998						THURSDAY OCTOBER 29 1998						DOLLAR INDEX				Oct 30	Day's % CHG since 3/30/98	
				US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	52 week High	52 week Low	Year ago	Market		
Australia (72)	189.57	0.8	167.82	139.64	163.23	202.63	1.0	3.73	188.13	166.18	138.76	161.43	200.57	219.96	163.86	200.17	Argentina	845.70	+4.9	-24.2		
Austria (23)	190.64	4.0	168.76	140.42	164.14	164.03	4.4	2.07	183.25	161.86	135.16	157.13	253.73	166.45	192.99	Brasil	285.15	+7.2	-40.9			
Belgium (22)	370.12	0.4	327.65	272.63	318.68	311.79	0.8	2.20	368.55	326.55	271.83	316.24	309.47	389.52	242.42	243.35	China	431.14	+3.8	-52.4		
Brazil (32)	142.05	7.3	125.75	104.63	122.31	311.91	7.5	3.15	192.33	116.89	97.61	113.55	290.28	269.44	102.68	212.42	Colombia ¹	326.93	+2.5	-50.4		
Canada (119)	168.51	1.8	168.88	138.85	162.31	211.17	1.5	1.90	185.22	163.60	136.61	158.93	207.76	248.78	158.94	201.07	Costa Rica	487.07	+4.8	-38.2		
Denmark (34)	471.12	0.7	417.06	347.02	405.65	403.43	1.0	1.57	467.82	413.24	345.06	401.43	399.27	537.33	408.26	408.41	Ecuador	132.16	-0.2	-40.3		
Finland (28)	454.72	2.2	402.54	394.95	391.53	490.83	2.5	1.91	445.04	393.11	325.29	381.87	468.89	505.46	257.59	306.01	Venezuela ²	344.20	+3.7	-62.4		
France (78)	296.78	1.0	262.73	218.61	255.54	258.70	1.5	2.43	293.74	258.47	216.66	252.05	254.97	346.18	222.08	225.36	East Asia					
Germany (55)	263.25	2.2	233.04	193.91	226.57	226.67	2.5	1.42	257.80	227.55	190.00	221.04	221.04	325.81	208.80	213.73	China					
Greece (36)	268.01	3.4	238.14	198.15	231.62	542.88	3.3	1.84	260.13	229.76	191.87	223.21	325.80	333.20	211.47	Indonesia ³	15.92	-8.1	-49.7			
Hong Kong, China (69)	317.71	3.1	261.25	234.02	273.56	315.96	3.1	4.23	308.20	272.24	227.32	264.46	306.57	389.74	198.64	358.04	Corporation	31.00	+3.1	-29.6		
Indonesia (26)	36.31	-5.5	32.14	27.74	31.26	169.28	-4.2	1.88	38.40	33.92	28.32	32.95	178.68	138.38	19.04	123.53	Country	63.24	-0.7	-30.6		
Iceland (16)	469.58	2.4	415.69	345.89	404.92	440.40	2.9	2.15	458.03	405.12	338.26	393.54	428.13	500.44	373.24	373.24	Pakistan ⁴	77.98	+1.6	-61.6		
Italy (54)	150.06	1.1	132.85	110.55	128.22	183.82	1.4	1.57	148.45	131.13	109.49	181.03	184.49	195.79	105.79	184.49	Philippines	107.21	+4.5	-4.9		
Japan (479)	92.77	-0.2	82.12	68.88	78.88	68.33	-0.3	1.10	92.92	82.08	68.54	79.73	68.54	109.85	76.83	109.83	Sri Lanka ⁵	64.63	+0.2	-44.4		
Mexico (28)	1151.98	5.0	1019.79	848.55	991.89	1275.06	3.9	2.00	1036.96	968.97	809.10	941.27	1277.25	1803.07	787.15	1507.73	Taiwan, China ⁶	119.39	+1.6	-15.4		
Netherlands (27)	454.77	1.4	402.59	334.99	391.58	387.67	1.8	2.40	448.36	396.07	330.72	384.57	380.91	562.38	391.03	400.74	Thailand	50.05	-5.4	-25.6		
New Zealand (14)	54.52	0.8	48.27	40.16	46.95	54.69	0.3	5.62	54.05	47.75	38.87	46.38	54.51	88.56	45.68	82.32	Europe					
Norway (37)	246.85	4.8	218.67	181.90	212.63	247.10	4.7	2.56	235.55	208.07	173.74	202.12	236.08	357.71	181.86	351.45	Czech Rep.	49.66	-0.3	-9.2		
Philippines (22)	76.16	5.1	67.42	56.10	65.58	153.15	4.0	1.01	72.49	64.03	53.47	62.20	147.21	106.98	42.48	83.51	Greece	486.73	+3.3	+50.2		
Portugal (18)	252.05	1.6	223.13	185.66	217.02	222.88	2.0	1.10	248.05	219.11	182.96	212.85	287.25	289.39	184.13	-	Hungary ⁷	241.19	+3.9	-23.4		
Singapore (41)	179.40	1.2	158.81	132.14	154.47	134.81	1.8	2.27	177.25	156.57	130.73	152.08	132.28	246.82	102.45	227.56	Poland ⁸	522.83	+3.8	-12.2		
South Africa (33)	211.79	2.7	187.48	156.00	182.36	258.69	0.9	3.57	206.13	192.88	152.04	196.88	257.37	346.20	151.55	346.20	Portugal	281.82	+1.2	+33.5		
Spain (31)	357.32	2.4	316.32	263.20	307.67	382.01	3.0	2.06	349.02	308.30	257.43	299.48	370.78	417.73	241.06	252.70	Russia	20.28	+4.7	-9.6		
Sweden (49)	469.54	2.5	415.66	345.89	404.92	543.37	3.1	2.17	458.13	404.68	337.91	393.11	527.04	626.19	379.18	472.17	Slovenia	44.74	-0.6	-54.9		
Switzerland (28)	336.65	1.0	342.28	284.81	332.92	324.81	2.0	1.28	382.71	338.06	262.28	318.34	438.40	306.96	306.96	306.96	Malta/Africa	134.85	-0.5	-56.6		
Thailand (35)	18.86	-2.4	18.70	13.89	16.24	26.90	-2.5	3.51	19.32	17.07	14.25	18.58	27.60	36.03	8.15	29.72	Egypt	65.82	-29.4			
United Kingdom (209)	354.92	1.2	313.56	260.99	305.06	313.86	1.5	3.12	349.94	309.11	258.11	300.27	309.11	401.84	307.96	315.53	Israel	94.57	+0.6	-22.2		
USA (617)	449.07	1.2	397.54	330.78	386.66	449.07	1.2	1.46	443.93	392.05	327.35	380.84	443.83	485.88	368.42	388.42	Morocco	178.18	-0.6	-35.2		
Americas (297)	400.17	1.3	352.45	294.75	344.56	339.48	1.2	1.49	395.20	348.09	291.49	338.11	336.30	437.03	335.19	335.38	S Africa ⁹	143.55	+3.5	-20.1		
Europe (744)	329.40	1.5	251.80	242.63	283.82	295.10	1.8	2.28	324.86	266.78	239.46	278.58	289.73	386.24	272.02	273.35	Zimbabwe ¹⁰	57.71	-1.4	-81.2		
Eurozone (351)	94.52	1.6	83.67	69.62	81.38	88.11	2.0	1.95	93.08	82.20	68.64	79.85	88.41	112.28	81.53	-	Regions					
Icelandic (149)	444.49	2.8	393.48	327.41	362.72	437.81	2.7	2.04	434.54	383.93	320.58	372.95	426.01	555.97	380.04	417.44	Composite	177.04	+2.9	-26.0		
Asia-Pacific Basin (755)	100.76	0.2	88.20	74.22	88.76	76.92	0.1	1.67	100.53	88.80	74.15	88.26	78.30	121.33	82.88	119.61	Latin America	420.88	+5.0	-37.9		
Europe-Pacific (1499)	185.78	1.1	173.32	144.22	168.58	158.73	1.4	2.10	193.56	171.06	142.84	165.17	156.63	221.19	166.00	183.76	Asia	89.20	+1.0	-17.2		
North America (736)	431.57	1.2	382.04	317.89	371.59	432.75	1.2	1.47	426.45	376.08	314.54	369.52	427.63	468.20	355.75	358.75	EMEA	112.43	+2.3	-23.8		
Europe Ex UK (535)	306.06	1.6	270.96	224.48	263.55	277.38	2.0	1.88	301.37	266.21	222.28	258.60	271.83	386.32	242.12	244.70	Europe	122.91	+2.0	-29.5		
Europe Ex Europe (393)	90.70	1.3	80.29	68.61	76.10	68.56	1.7	2.61	89.50	79.06	66.01	76.80	87.05	103.93	77.40	-	East Europe	53.31	+3.6	-62.0		
Europe Ex UK Ex Eurozone (184)	91.62	1.5	81.11	67.49	78.89	86.04	2.3	1.57	80.23	79.71	66.55	77.43	84.12	109.21	75.16	-	ME & Africa	58.66	+2.5	-18.0		
Asia-Ex Japan (278)	176.05	1.8	156.85	129.68	151.50	180.29	1.9	3.87	172.98	152.78	127.58	148.42	176.94	228.25	128.35	210.91	Comp + Malay	176.53	+2.7	-28.2		
World Ex Eurozone (1864)	94.93	1.1	83.95	69.85	81.85	93.24	1.2	1.73	93.78	82.84	69.17	84.47	92.16	103.18	83.08	-	Asia - Malay	87.39	-0.6	-18.9		
World Ex US (1718)	195.73	1.2	172.27	144.16	188.93	163.77	1.4	2.11	193.40	170.84	142.85	165.95	161.49	185.95	121.91	187.14	China					
World Ex UK (2126)	270.09	1.2	238.70	193.95	223.56	239.65	1.3	1.61	266.92	225.78	198.88	229.04	236.64	298.02	234.24	238.67	India					
World Ex Japan (1855)	328.62	1.4	271.98	217.88	317.68	357.14	1.5	1.85	364.27	321.78	258.68	312.57	351.94	411.23	312.96	313.84	Indonesia					
World Ex	277.20	-1.2	245.47	204.25	238.76	246.41	1.3	1.77	274.03	242.05	202.12	235.13	243.27	306.56	241.30	245.21	Other					

The World Index (2335) 277.29 +1.2 245.47 214.63 205.02 205.02
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(16) July 2 1993
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4 pm close November 2

NEW YORK STOCK EXCHANGE PRICES

GLOBAL EQUITY MARKETS

* Sat Oct 31 Taiwan Weighted Price 7165.98; Korea Composite Ex 403.44. Monitored by Toronto, NY, Canada, & Hong Kong. 1) S&P/TSX All-Share Index: Oct 22: 4762.47 +714.2. 2) Commodity: Calculated at 16.00 CAD. 3) Existing houses: 2 Industrial, plus Utilities, Financial and Transportation. 4) The DJ Ind. Index theoretical day's high and low are the averages of the highest and lowest prices reached during the day by each stock; whenever the actual day's high and low exceed the highest and lowest values that the index has reached during the day (the figures in brackets are previous day). 5) Subject to official confirmation. 6) Visible and PE ratios are based on December Total Market Indices. 7) Monitored.

THE NASDAQ STOCK MARKET

4 pm close November 2

	P	V	Vol	High	Low	Last	Chg	Stock	P	V	Vol	High	Low	Last	Chg	Stock	P	V	Vol	High	Low	Last	Chg	Stock	P	V	Vol	High	Low	Last	Chg	Stock	P	V	Vol	High	Low	Last	Chg								
Stock	Dr.	E	1000	High	Low	Last	Chg	Stock	Dr.	E	1000	High	Low	Last	Chg	Stock	Dr.	E	1000	High	Low	Last	Chg	Stock	Dr.	E	1000	High	Low	Last	Chg	Stock	Dr.	E	1000	High	Low	Last	Chg								
Action E	2047425	652	81	62	52	52	-1	Adams	2005	56	74	54	52	52	-1	Affiliated	0.82	20	3271	364	52	50	-1	Alaris	0.60	17	3204	3712	362	374	+2	AGS Vision Sys.	0.17	900	1416	1416	1416	1416	+1	AGS Energy	0.18	15	232	184	184	184	+1
Action Ap	4179	26	23	21	20	20	+1	Adams	3011110	23	21	21	20	20	-1	Affiliated	0.82	45	7055	679	654	672	+1	Alaris	0.60	17	3204	3712	362	374	+2	AGS Wind	2.60	5	3971	737	71	73	+1								
Adaptec	20460	174	16	171	16	16	-1	Adams	13	1555	55	51	54	54	+1	Affiliated	0.82	13	1454	31	304	303	-1	Alaris	0.60	17	3134	506	506	506	+1	AGS Wind	0.09	15	232	22	22	22	+1								
ADCT	2512200	202	202	202	202	202	+1	Adams	0.11	4	591	212	201	201	-1	Affiliated	0.82	13	1454	31	304	303	-1	Alaris	0.60	17	3134	506	506	506	+1	AGS Wind	0.09	15	232	22	22	22	+1								
Adcom/ADR	0.37	46	206	52	50	50	-1	Adams	0.06	14	101	372	369	369	+1	Affiliated	0.82	13	1454	31	304	303	-1	Alaris	0.60	17	3134	506	506	506	+1	AGS Wind	0.09	15	232	22	22	22	+1								
Adcom	0.30	27	408	294	276	276	+1	Adams	0.06	21	1838	147	145	145	+1	Affiliated	0.82	13	1454	31	304	303	-1	Alaris	0.60	17	3134	506	506	506	+1	AGS Wind	0.09	15	232	22	22	22	+1								
ADMTR	23	247	202	202	202	202	+1	Adams	1069	34	5	5	5	5	-1	Affiliated	0.82	13	1454	31	304	303	-1	Alaris	0.60	17	3134	506	506	506	+1	AGS Wind	0.09	15	232	22	22	22	+1								
Ad Polm	0.25	8	257	12	114	114	-1	Adams	14	25	101	94	94	94	-1	Affiliated	0.82	13	1454	31	304	303	-1	Alaris	0.60	17	3134	506	506	506	+1	AGS Wind	0.09	15	232	22	22	22	+1								
Ad Polm	0.20	20	257	9	9	9	-1	Adams	25002	476	48	48	48	48	-1	Affiliated	0.82	13	1454	31	304	303	-1	Alaris	0.60	17	3134	506	506	506	+1	AGS Wind	0.09	15	232	22	22	22	+1								
Ad Polm	0.24	14	1034	214	21	21	-1	Adams	232	55	55	54	54	54	-1	Affiliated	0.82	13	1454	31	304	303	-1	Alaris	0.60	17	3134	506	506	506	+1	AGS Wind	0.09	15	232	22	22	22	+1								
Ad Polm	0.16	15	630	493	49	49	-1	Adams	4	29	74	74	74	74	-1	Affiliated	0.82	13	1454	31	304	303	-1	Alaris	0.60	17	3134	506	506	506	+1	AGS Wind	0.09	15	232	22	22	22	+1								
Ad Polm	0.09	13	230	205	205	205	-1	Adams	0.06	15	415	22	21	21	-1	Affiliated	0.82	13	1454	31	304	303	-1	Alaris	0.60	17	3134	506	506	506	+1	AGS Wind	0.09	15	232	22	22	22	+1								
Ad Polm	0.06	19	9	23	23	23	-1	Adams	1700	42	41	41	41	41	-1	Affiliated	0.82	13	1454	31	304	303	-1	Alaris	0.60	17	3134	506	506	506	+1	AGS Wind	0.09	15	232	22	22	22	+1								
Ad Polm	0.05	21	182	221	214	214	-1	Adams	0.10	43	1833	54	51	50	+1	Affiliated	0.82	13	1454	31	304	303	-1	Alaris	0.60	17	3134	506	506	506	+1	AGS Wind	0.09	15	232	22	22	22	+1								
Ad Polm	0.04	20	257	9	9	9	-1	Adams	0.12	14	174	16	15	15	-1	Affiliated	0.82	13	1454	31	304	303	-1	Alaris	0.60	17	3134	506	506	506	+1	AGS Wind	0.09	15	232	22	22	22	+1								
Ad Polm	0.04	24	107	2	1	1	-1	Adams	15	34	94	9	9	9	-1	Affiliated	0.82	13	1454	31	304	303	-1	Alaris	0.60	17	3134	506	506	506	+1	AGS Wind	0.09	15	232	22	22	22	+1								
Ad Polm	0.03	20	257	15	15	15	-1	Adams	5050	34	94	94	94	94	-1	Affiliated	0.82	13	1454	31	304	303	-1	Alaris	0.60	17	3134	506	506	506	+1	AGS Wind	0.09	15	232	22	22	22	+1								
Ad Polm	0.03	20	257	15	15	15	-1	Adams	704552	84	83	84	84	84	-1	Affiliated	0.82	13	1454	31	304	303	-1	Alaris	0.60	17	3134	506	506	506	+1	AGS Wind	0.09	15	232	22	22	22	+1								
Ad Polm	0.03	20	257	15	15	15	-1	Adams	127	9455	713	702	702	702	-1	Affiliated	0.82	13	1454	31	304	303	-1	Alaris	0.60	17	3134	506	506	506	+1	AGS Wind	0.09	15	232	22	22	22	+1								
Ad Polm	0.03	20	257	15	15	15	-1	Adams	100	28	94	82	80	80	-1	Affiliated	0.82	13	1454	31	304	303	-1	Alaris	0.60	17	3134	506	506	506	+1	AGS Wind	0.09	15	232	22	22	22	+1								
Ad Polm	0.03	20	257	15	15	15	-1	Adams	10	28	94	82	80	80	-1	Affiliated	0.82	13	1454	31	304	303	-1	Alaris	0.60	17	3134	506	506	506	+1	AGS Wind	0.09	15	232	22	22	22	+1								
Ad Polm	0.03	20	257	15	15	15	-1	Adams	0.04	10	28	94	82	80	-1	Affiliated	0.82	13	1454	31	304	303	-1	Alaris	0.60	17	3134	506	506	506	+1	AGS Wind	0.09	15	232	22	22	22	+1								
Ad Polm	0.03	20	257	15	15	15	-1	Adams	0.04	10	28	94	82	80	-1	Affiliated	0.82	13	1454	31	304	303	-1	Alaris	0.60	17	3134	506	506	506	+1	AGS Wind	0.09	15	232	22	22	22	+1								
Ad Polm	0.03	20	257	15	15	15	-1	Adams	0.04	10	28	94	82	80	-1	Affiliated	0.82	13	1454	31	304	303	-1	Alaris	0.60	17	3134	506	506	506	+1	AGS Wind	0.09	15	232	22	22	22	+1								
Ad Polm	0.03	20	257	15	15	15	-1	Adams	0.04	10	28	94	82	80	-1	Affiliated	0.82	13	1454	31	304	303	-1	Alaris	0.60	17	3134	506	506	506	+1	AGS Wind	0.09	15	232	22	22	22	+1								
Ad Polm	0.03	20	257	15	15	15	-1	Adams	0.04	10	28	94	82	80	-1	Affiliated	0.82	13	1454	31	304	303	-1	Alaris	0.60	17	3134	506	506	506	+1	AGS Wind	0.09	15	232	22	22	22	+1								
Ad Polm	0.03	20	257	15	15	15	-1	Adams	0.04	10	28	94	82	80	-1	Affiliated	0.82	13	1454	31	304	303	-1	Alaris	0.60	17	3134	506	506	506	+1	AGS Wind	0.09	15	232	22	22	22	+1								
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AMEX PRICES

EASDAQ

The EASDAQ All Share Index (EASI) for 2000 October 728.57 up 3.60% Day's high: 728.61 Day's low: 700.37
 EASDAQ is a fully regulated independent pan European Stock Market located on high growth companies with international exposures. The shares of
 companies on the EASDAQ Stock Market can be bought and sold through EASDAQ Members.

Company	Mid price	Change	Volume	High	Low	Company	Mid price	Change	Volume	High	Low
		on day						on day			
Aeroflot Technologies	USD7.5	-0.25	0	11.5	5.25	ICRS Vision Syst	USD14	+0.12	500	20.67	11.25
Adacard	USD1.35	3500	6.375	2.25		Immergistics	USD45.375	-2.375	62555	71.0	58.75
Alcatel	USD28.00	10000	4250	13250		Ingenic Sun Syst.	DEM47.5	+0.25	500	72.2	4.5
Alcatel Systems	USD15	7270	21.125	5.675		Lentech & Haupple	USD40.625	-0.75	60003	65.25	13.125
Astronomy Corp.	USD20.5025	1154800	41.875	12.625		Metalsa	USD10.25	-0.125	24500	20.625	7.375
Camerúnex+	PRM8.8	408000	21.5	8.8		Motor Int'l+	USD15	0	0	22.50	7.375
City Bird Holding	USD7	-0.0625	1000	10.3125	6.1875	Optic Int'l	USD18.5	+2.25	3000	33.25	5.75
Dalatex Holdings	GBP1.75	-0.03	5700	7.1	6.8	Orbitron, Inc.	USD40.25	-0.25	3500	67.25	20.5
ESAP TMS	USD1.9375	-0.0625	1200	9.125	1.5	Pantai Racing Syst.	USD10.25	-0.25	2500	11.25	10.625
EPAI	DEM5.75	-0.125	9200	10.275	4.75	Premier	MLB19.25	-0.25	600	51.50	7.5
ESTEL Telecom	DEM1.75	-0.175	0	4.75	3.125	Portech+	USD12.5	-0.25	104500	31.5	10.25
Source Prod. Inc.	PRM10.73	-0.0125	200	12.125	8.0	Proton Optoelec.	USD10.375	0	6500	16.15	2.125
Spiral Telecom	USD17.75	-0.125	1000	18.000	6.375	R&T Sist. Integr.	AT\$191.5	+0	2100	41.50	16.75
T.I.V. Corp.	USD10.4125	2000	22.25	11.975		Siemens-Billerud+	USD10.25	-0.25	200	17.95	10.25
Smart Graphics	USD1.21	-15	1030	2.000	1.75	Socfin	DEM45.5	+0.5	40000	88.25	54.75
Global TeleSciences	USD10.125	-35	12500	62.275	21.25	Special Int'l+	USD5.4	-0.32	10500	50.00	21.25
Orange Telecom	USD11.5	120	27.25	10.25		Technologic Kehrol+	USD3.5	-0.32	10250	16.83	2.1
Supco Formula	USD19.00	-50	2500	40.000	14.025						
JTL19.00											

For 2000/2001. Please note that mid prices are only used to calculate highs and lows. Information about EASDAQ can be found on the Web at <http://www.easdaq.com>. EASDAQ offices are located in Brussels (tel: +32 2 207 65 201) and in London (tel: +44 171 949 9200). Annual report and prospectus can be obtained for companies listed in EASDAQ from Annual Bonds & Capital Markets, tel: +44 171 949 7707. For further details contact your Dresdner Bank branch.

STOCK MARKETS

Rate cut hopes blot out profits concerns

WORLD OVERVIEW

It looked like a case of lower interest rates over earnings yesterday as investors shrugged off profits concerns and hopes of rate cuts in Europe and possibly in the US later this month supported sentiment, writes Enrico Terazono.

Europe followed Asia, edging higher, and saw later support from Wall Street. Manila rose 5 per cent, Tokyo almost 3 per cent and

Jakarta added 2 per cent. In Europe, Amsterdam shone, advancing nearly 4 per cent, helped by financials, while both Milan and Madrid gained over 2 per cent.

So is the worst over for equity markets? With share prices higher and volatility lower, investors seem to have snapped out of the crisis mode of August and September. The Asian markets – which had led the global decline – were winners of the October rally.

According to FTSE International, which compiles the FT/S&P indices, the best performing markets were Jakarta, which rose 61 per cent in dollar terms, followed by Bangkok at 60 per cent, Manila at 48 per cent, Singapore at 40 per cent and Hong Kong at 32 per cent.

Even the worst five performers were in the positive column, with Athens up 4 per cent in dollar terms, Dublin 4.6 per cent, São Paulo 5 per cent, and both

Frankfurt and Amsterdam up 5.6 per cent. Although reports of a banking tie-up helped boost share prices in Tokyo yesterday, the market has been conspicuously absent from the global October rally. The market only managed to edge up 0.3 per cent in local currency terms last month.

With weak consumption, investment and external demand working against the Japanese economy, there may be little light for Japan.

says Lehman Brothers. The economy will continue to be depressed by poor business and consumer sentiment, a dysfunctional banking sector, a negative combination between output, employment and income, and deteriorating overseas demand. On top of this, structural problems, including over-regulation, a distorted tax system and underdeveloped corporate governance, also continue to affect growth prospects.

In spite of the government's latest banking sector package and the prospect of a large fiscal stimulus, Lehman expects the economy contract further in 1999.

Meanwhile, technical analysis by HSBC Securities suggests that Japan, after having been in a downturn, may have hit a relative low and seen a reversal. However, this relative low (compared with the world index) does not rule out a further decline in absolute terms.

Cyclicals lift Dow above 8,700 level

AMERICAS

US shares continued to rally in early trading with renewed buying of cyclicals helping to lift the Dow Jones Industrial Average above the 8,700 level, writes John Labate in New York.

"There's a lot of liquidity that's been built up from the previous market turmoil, and people are pouring it in [the market]," said Bill Meehan, chief market analyst at Cantor Fitzgerald in Connecticut. "We've seen a fairly substantial shift into economically sensitive stocks like commodity producers, retailers and financials."

By early afternoon the Dow had gained 11.96 or 1.3 per cent to 8,703.06 while the S&P 500 index was 11.97 higher at 11,064.

Cyclical Dow shares were especially sharp risers, led by Goodyear Tire, up 5.9 per cent or \$33, to \$571. Boeing was 5.8 per cent or \$23, up at \$389, after the aerospace company said it had gained regulatory approvals for some of its new models. Allied Signal gained more than 4 per cent to \$409.

Citigroup, however, plunged 1.1 or nearly 4 per cent to \$45.50 on news that its president had resigned and after Warburg Dillon Read cut the stock from "strong buy" to "hold".

The Nasdaq composite, heavy in technology shares, gained 24.73 or 1.4 per cent to 1,796.12. The Russell 2000 index of small company shares rose 6.69 or 1.77 per cent to 384.85.

US Treasury prices fell back strongly in spite of a surprisingly weak report by the National Association of Purchasing Management.

The NAPM's main index of manufacturing activity fell from September's level of 49.4 to 48.3 in October.

By early afternoon the benchmark 30-year bond was

down 1.1 to 104.1, sending the yield higher to 5.231 per cent.

Shares of CalEnergy gained more than 4 per cent to \$28.40 after CS First Boston rated the company a "strong buy". In spite of CSFB's change in rating from "hold" to "buy" for foods producer Kellogg, the company's shares climbed \$1.1 to \$33.50.

News that Medtronic, the medical device producer, had taken over Solman Danek sent both shares sharply higher. Sofamor surged \$9.50 to \$111.4, while Medtronic gained \$1.1 to \$66.50.

TORONTO continued to push higher with the latest gains supported by takeover talk and hardening hopes of an imminent official downward nudge for interest rates.

The benchmark 300 composite index, which has risen 6.2 per cent over the previous five days, was 79.62 higher at 6,287.9 at the noon calculation.

Banks, the main interest rate barometer, had another lively session with Royal Bank of Canada gaining C\$1.25 at C\$72.35 and Canadian Imperial Bank up 75 cents at C\$31.40.

Among industrials, leading conglomerate Power Corp of Canada jumped C\$1.25 to C\$33.75. Telecoms met with demand too. Northern Telecom rose 30 cents to C\$64.45 and BCE 35 cents to C\$52.65.

Goldex failed to keep in step, slipping lower as investors tracked the softening bullion price. Barrick came off 85 cents at C\$31.95 and Placer Dome retreated C\$1 to C\$23.45.

Takeover talk was supported by Friday's late news that Loblaw was paying C\$1.60m for Provigo in a deal that was widely seen as accelerating the pace of consolidation in the Canadian retail industry.

The banking sector soared 6 per cent in the wake of Handelsbanken's cash bid for Norway's Fokus bank last Friday. Handelsbanken gained SKr15.50 to SKr344.

FRANKFURT put on 1.5 per cent, largely reflecting technical rebounds in some

of the latest sales numbers for the

EUROPE

AMSTERDAM shot ahead, boosted by a high-voltage performance from Philips. The AEX index rose 37.44 or 3.8 per cent to 1,030.60 to consolidate Friday's brief surge through the 1,000 level.

Philips powered 9 per cent or F1 9 higher to F1 108.40 on the weekend news that the electronics giant planned to restructure its manufacturing base.

There was good support too from financials which continued to bask in the glow of hopes for lower interest rates across Europe in the run-up to this week's meeting of the Bundesbank's influential policy-making monetary committee.

ING jumped F1 7.50 or 8.3 per cent to F1 97.90, helped partly by news that its ING Bearings arm plans to unveil the findings of a strategic review in January. ABN-Amro added F1 1.60 at F1 36.60.

Royal Dutch rose F1 1.10 to F1 9.30 in spite of a cut from market outperform to market perform by Goldman Sachs as the broker trimmed its estimates of oil prices for this year and next.

KLM hardened F1 1.50 to F1 79.50 ahead of tomorrow's second-quarter earnings statement although most brokers predict a disappointing report from the airline.

Hagemeijer, the trading group which has a big Asian trading base and changed hands at F1 105 earlier this year, jumped F1 5.20 or 8.3 per cent to F1 64 on the improving outlook for the region.

STOCKHOLM was another big winner as banks fuelled the advance on hopes of more restructuring in the nordic financial sector. Analysts noted that expectations were also growing for a cut in the key repo rate later this month. The general index climbed 106.68 or 3.7 per cent to 3,034.55.

The banking sector soared 6 per cent in the wake of Handelsbanken's cash bid for Norway's Fokus bank last Friday. Handelsbanken gained SKr15.50 to SKr344.

PARIS rose 46.67 to 3,569.60 on the CAC 40 index after moving briefly above 3,600 for the first time since September 16. Motor stocks improved on the back of the latest sales numbers for the

industry. Renault added FF18.50 at FF246 and Peugeot FF27.60 at FF253. Valeo jumped FF24.50 or 5 per cent

interest rate hopes got behind banks with BNP up FF15 at FF236.90 and Paribas FF22.60 at FF243. Total and Elf Aquitaine gained FF29 to FF67.00 and FF11 to FF634 in spite of Goldman Sachs' negative comment on the global oil industry.

ZURICH moved ahead in line with its neighbours and the SMI index finished 91.8 higher at 6,642.4. Banks were mixed. UBS went along with the broad market recovery, rising SF4.50 to SF376 while CS Group lost 2.25 to SF206.

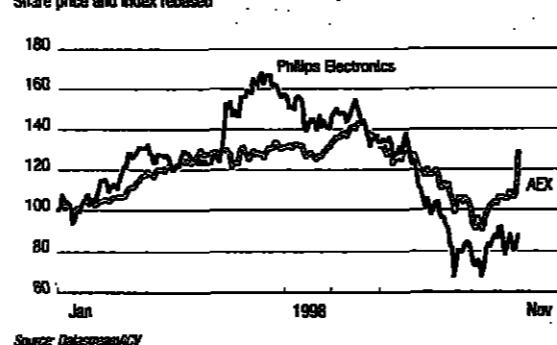
Private banks were helped by expectations that they might be planning to buy back their own shares. Insurers were also higher. Swiss Re rose SF16 to SF3.022

Written and edited by Michael Morgan, Jeffrey Brown, Enrico Terazono and Peter Hall

Philips boosts Amsterdam

Philips Electronics

Share price and index rebased



blue chips. The Xetra Dax index finished 71.48 higher at 4,732.47, but in light trade.

Adidas-Salomon tumbled DM10 to DM185 after the sportswear and equipment group disappointed the market with details of its nine-month loss due to its acquisition of French group Salomon earlier this year. Ahead of the results, the shares traded as high as DM206.

Dresdner fell into negative territory after its nine-month results failed to live up to some analysts' expectations and the bank attributed a third-quarter operating loss to the financial crisis in Asia and Russia.

However, the shares finished DM1.50 higher at DM66. Other banks were mixed. Commerzbank eased DM1.25 at DM72.35 and Cana-

dian Imperial Bank up 75 cents at C\$31.50.

Shares in chemical groups were mostly higher ahead of a week of results. Hoechst rose 77 pfs to DM70.50 on a newspaper report that it was still in talks with Rhône-Poulenc on a possible tie-up.

Volkswagen was DM2.20 higher at DM127.70 after the chief executive forecast the group would achieve record results in 1999. Other car stocks were higher. BMW climbed DM45 to DM1,210 and Daimler-Benz put on DM4.75 to DM134.75.

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Written and edited by Michael Morgan, Jeffrey Brown, Enrico Terazono and Peter Hall

and Zurich Allied SF16.14 to SF16.14

MARKET FOCUS

Rivals waltz ahead of Vienna

However hard the Vienna stock market tries, it cannot shrug off its image as one of the world's worst performing markets. Since the end of 1995, the German and Swiss stock markets have doubled, while Austria is up by less than a fifth.

Every now and again it is "discovered" by international investors. But at the first hint of trouble they take flight. Austrian shares take a battering, and the ATX remains stuck roughly a third below its peak of 1,371.14 set in March 1990.

This year no exception.

In the spring, shares had started to outperform. Corporate profits were growing at a double-digit rate and equity valuations looked cheap compared with other European countries. However, the crisis in Russia and other markets quickly deflated the optimism.

The ATX, which had broken through the 1,600 level,

had fallen by a quarter since then and Austria has resumed its position next to the bottom of the European stock market league.

Shares of OMV, Austria's biggest industrial company, have fallen by nearly 40 per cent this year. Although it has recently increased its target return on capital employed, from 10 per cent to 13 per cent, investors seem much more concerned about the impact of falling oil prices than its share value.

VA Stahl and VA Tech, two other Austrian blue chips, are down by a similar amount and are now selling on 5 and 10 times estimated 1999 earnings respectively.

ATHENS shot up 5.9 per cent as bulls returned with a strong appetite for the banking sector after Friday's rate cuts and OTE's successful global offering. The general index climbed 126.87 to 2,289.60.

Private banks were helped by expectations that they might be planning to buy back their own shares. Insurers were also higher. Swiss Re rose SF16 to SF3.022

Given the need to increase telephone density significantly and modernise the existing infrastructure, the Moroccan market offers real business potential for investors, operators and suppliers.

The language of the conference will be English/French/Arabic, and simultaneous interpretation will be provided.

CHAIRED BY Mr Quentin Peel, International Affairs Editor, Financial Times

DISTINGUISHED SPEAKERS INCLUDE HE Mr Abderrahmane El-Yousfi, Prime Minister of Morocco

Mr Rachid El Fallal, Minister of the Public Sector and Privatisation, Morocco

Mr Hossaini, General Director, National Agency for Telecommunications Regulation (ANTRI)

Mr Gerald Lakenkamp, Corporate Vice President, Motorola Inc, Director, Central and Eastern Europe, Middle East and Africa, Motorola Ltd

Mr Jeremy Boardman, Director, Telecommunications, N M Rothschild & Sons Limited

Mr Navin Kapila, Vice President, Global Communications, JCI Global Communications

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